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KEDI ECONOMIC SURVEY

OCTOBER ISSUE

October 31, 1979

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

Vol.5, No.4, October 31,1979

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President: Vladimir J. Simunek

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Publication No. 107900414
KEDI October 31, 1979

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERWIEW

KEDI's projection of only a mild decline remains essentially unchanged from the September issue, as third quarter data substantiated our prediction of an increase in the real GNP and the raise of the Federal Reserve discount rate to new record heights.

The economic outlook was briefly brighter as the GNP rose at a seasonally adjusted 2.4% during the third quarter, making up for the second quarter slump of 2.3%. As predicted, the Federal Reserve Board has raised the discount rate to 12%.

As these data support our previous forecast, the scenario remains unchanged: there will be no full-scale recession. The economy is expected to decline during the fourth quarter, and bottoming out during the first quarter of 1980. Sluggish growth is expected throughout 1980 and 1981, with the start of recovery in 1982.

The quarterly forecast data of real growth and income have been raised somewhat, due to routine adjustments from preliminary third quarter data regarding production and factory orders. Monetary and credit data have been reduced a little.

KEDI forecast for 1980, as compared here with data released by other leading economic forecasters, are more optimistic about the growth and unemployment rate, but gloomier about the inflation rate. All are convinced that recovery will begin by the middle of next year, however.

KEDI: The real GNP for 1980 will level off, with a recovery beginning in in the second quarter of 1980. Unemployment will go to 7.3% in the first quarter 1980 and then will gradually decline. Inflation rate will go down to 8.3% when measured by the GNP implicit price deflator, and 10.1% when measured by the Consumer Price Index. A combined tax-expenditure measure will be adopted in the second quarter of 1980.

Data Resources, Inc.: Real GNP will decline about 2.0%, with recovery beginning during the first quarter of 1980. Unemployment will go to 7.3% and inflation will get down to 9.0%. No tax cut is seen until 1981.

Chase Econometric Associates, Inc.: Real GNP will decline about 2.5%, with recovery beginning in the second quarter of 1980. Unemployment will go to 8.0% and inflation will get down to 8.0%. A $ 25 billion tax cut is predicted effective April 1, 1980.

Wharton Econometric Associates, Inc.: Real GNP will decline about 1.6% with recovery beginning in the first quarter of 1980. Unemployment will go to 7.5% and inflation will decrease to 8.5%. A $ 20 billion tax cut is predicted effective January 1, 1980.

Merill Lynch Economics,Inc.: Real GNP will decline about 2.5% with recovery beginning in the first quarter of 1980. Unemployment will go to 7.7% and inflation will drop to 7.9%. A $ 20 billion tax cut is predicted effective January 1, 1980.

Adding to the uncertainty about the economic outlook are vague and somewhat contradictory statements by Administration officials. Paul Volcker, Federal Reserve Board chairman, has maintained that the Fed's current tight-credit policies could soon lead to an economic turnaround and lower interest rates. Volcker has also said that the Fed will resist any political pressures to ease these policies.

Treasury Secretary G.William Miller has assured Congress that the Carter Administration is prepared to bolster the economy with alternative measures should the recession prove deeper than expected under the Fed's new policies, although president Carter has spoken of supporting the policies even though it may hurt him politically.

President Carter has also held out hope that interest rates and inflation have "peaked" and will now be decreasing instead of spiralling upward. However, the Business Council, a private group of top corporate executives, has concluded that the Fed's measures may mildly deepen an economic downturn.

Most economists agree, in general, that if the recession will develop deeper than expected, the Administration will have to come with some fiscal and monetary measures to help the economy. But the views on the extent of such measures and their timing differ widely. KEDI expects some bolstering of the economy by the Administration to occur in the first half of the year 1980, but this help will not turn the trend dramatically upwards. Forecast of this Institute shows the sluggish pace and slow growth of the economy throughout the next two years, with indications of the start of the new cycle appearing markedly not earlier than in the first half of the year 1981.

The KEDI forecast of the developments in the U.S.economy is highlighted on the following page in Table 1.0.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. 1972$	1399.2	1425.1	1423.9	1712.1
Index of Industrial Production	1967 =100	145.2	151.6	151.6	167.1
Capacity Utilization	%	84.3	84.8	80.8	86.4
Unemployment Rate	%	6.0	6.0	7.0	6.1
Private Housing Starts	mil. units	2.020	1.751	1.603	1.898
Car Sales	mil. units	11.3	10.6	10.0	12.4
Implicit GNP Price Deflator	1972 =100	152.1	165.5	179.3	272.9
Consumer Price Index	1967 =100	195.3	217.4	239.3	371.0
Producer Price Index	1967 =100	209.3	237.0	270.1	399.2
Federal Deficit	bil.$	-27.7	-9.4	-16.4	-20.3
Personal Income	bil.$	1717.4	1917.2	2163.2	3244.1
Prime Rate	%	9.06	12.86	13.42	9.90
Mortgage Rate	%	9.30	10.32	11.24	9.72
Currency plus Demand Deposits	bil.$	352.8	376.4	414.6	640.1
Commercial and Industrial Loans	bil.$	230.9	265.1	279.5	440.2

assumptions incorporated into the September, 1979, forecasts, the changes concern the Assumption No.9. In the forecast, the factory orders, defense orders, orders for machine tools, and export orders have been increased. That is the second consecutive increase in these categories since August 1979. Also the indicators of consumers' and businesses confidence have been raised somewhat.

1. In 1979 and 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $24 per barrel and in 1980 this figure will go up to the $28 range. In 1981, it is expected the price will go up on $33 and in 1982, on $38 per barrel.

2. The supply of Iranian oil will settle to a normal flow in the second part of 1980.

3. Starting third quarter 1979, the Administration will pursue the policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will expand more rapidly starting the end of this year, and will gain a substantial momentum in 1980 and 1981.

6. This year, the U.S. will experience a good harvest and the U.S.S.R. an extra low one. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983.

7. It is projected here that the rates of growth in 1979, 1980, and 1981 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981
West Germany	3.0%	3.1%	3.4%
Italy	2.9	3.0	3.1
Japan	3.2	3.5	3.7
Great Britain	1.4	1.8	2.1
France	2.8	2.9	3.0

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will remain at low levels in 1979 and throughout 1980. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH

(Table 01. on page 7)

KEDI does not expect any dramatic downturn in the economy during the coming months. The predictions for quarterly values of the GNP and the Index of Industrial Production have been changed slightly upwards, due mainly to third quarter 1979 data recently announced by the U.S.Department of

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1430.8	1416.7	1425.1
Index of Indust. Production	1967=100	145.2	151.5	151.8	152.1	151.1	151.6
Unemployment Rate	%	6.0	5.8	5.7	5.8	6.6	6.0
Capacity Utilization Rate	%	84.3	86.0	85.8	84.9	82.6	84.8
Private Housing Starts	mil. units	2.020	1.616	1.837	1.826	1.724	1.751
Car Sales	mil. units	11.3	11.7	10.9	10.0	9.7	10.6
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1425.1	1410.3	1415.2	1428.4	1441.5	1423.9
Index of Indust. Production	1967=100	151.6	149.8	151.4	152.3	152.9	151.6
Unemployment Rate	%	6.0	7.3	7.0	6.7	6.8	7.0
Capacity Utilization Rate	%	84.8	80.3	79.9	80.3	82.5	80.8
Private Housing Starts	mil. units	1.751	1.490	1.604	1.671	1.647	1.603
Car sales	mil. units	10.6	9.3	9.6	10.3	10.6	10.0
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1423.9	1445.6	1459.7	1469.8	1487.5	1465.7
Index of Indust. Production	1967=100	151.6	153.1	153.9	155.2	155.9	154.5
Unemployment Rate	%	7.0	6.1	6.4	6.2	6.3	6.3
Capacity Utilization Rate	%	80.8	83.4	83.9	84.3	85.4	84.3
Private Housing Starts	mil. units	1.603	1.549	1.708	1.801	1.842	1.725
Car sales	mil. units	10.0	10.4	11.2	11.3	11.7	11.2

Commerce and the Federal Reserve Board.

The forecast shows that the expected decline in the economy during the coming two quarters will be lead by a drop in (1) automobile sales; (2) declining sales in automobile-related industries such as steel, rubber and machinery; (3) a decline in the housing industry, and (4) a decline in paper and forest products industries.

However, indications are that the slumps in the automobile and housing industries will be less severe that during the previous recession in 1974-1975.

% changes from previous quarter

Housing Units Starts				Car Sales			
Last Recession		Forecast		Last Recession		Forecast	
1973:3	-5.8%	1979:3	-.6%	1973:3	-4.1%	1979:3	-8.3%
4	-18.6%	4	-5.6%	4	-16.3%	4	-3.0%
1974:1	-3.4%	1980:1	-13.6%	1974:1	-6.1%	1980:1	-4.1%
2	-4.4%	2	+7.7%	2	0.0%	2	+3.2%
3	-20.6%	3	+4.2%	3	+12.0%	3	+7.3%
4	-14.9%	4	-1.4%	4	-31.1%	4	+2.9%
1975:1	-4.7%	1981:1	-6.0%	1975:1	+18.3%	1981:1	-1.9%
2	+9.7%	2	+10.3%	2	-6.0%	2	+7.6%

Comparison of the above data indicates that projected declines will be less severe than those which occured in 1973-1975.

Actual situations and some forecasts confirm the view of this Institute. On the other hand, some forecasters paint a gloomy picture of coming months. For example, homebuilders foresee a collapse of their industry. The National Association of Home Builders maintains that housing starts will plummet 44% during 1980, resulting in the loss of 675,000 jobs in the building trade and 818,000 jobs in related fields.

Other industries, that will be affected by the expected slump, are less pessimistic. For example, steel makers have reduced their projections of shipments of steel in the year 1980 by a relatively small margin. Most steel executives assume, now, that the economic slump will last into 1980, but will be relatively mild. Some decline is also expected in recent forecasts for the paper, paperboard and forest products industries. The forecast expects 3-4% decline of output in the year 1980. Also the outlook for the rubber industry is cloudy. The forecast of this Institute shows a 1% decline in output of tires and rubber products in the year 1980.

While the above industries seem most affected by the expected economic downturn, the picture of other industries and areas of the economy does not seem as bad.

KEDI expects that consumer demand for nondurable goods will continue to be strong. Preliminary data show that October sales will be slightly above September's and indications are that sales will continue to grow in the coming months. Another positive sign is that consumer confidence turned upward in September, according to the Conference Board, a business research organization. The increase was the first of the year and was largely attributed to less anxiety about the gasoline supply and a downturn in unemployment. Positive developments have also appeared in the area of capital outlays: Machine-tool orders were 30% higher in September than a year earlier, apparently unaffected by higher interest rates and the economic slowdown. Factory orders were up 3.9% in September, evidence of the economy's uplift in the third quarter. Industrial production, led by the motor vehicle industry, increased in September, a temporary, but significant development.

1.2 PRICES AND NOMINAL GNP

(Table 02. on page 11)

KEDI's forecast of price developments has not been significantly changed. This Institute maintains its projection that the Consumer Price Index will grow by about 10% during the next year, with the Producer Price Index growing by 11% and the GNP price deflator by 8.3%. For this year, the KEDI forecasts are the respective 11.3%, 13.3%,and 8.9%.
The KEDI prediction for this year is supported by recently released data for September and recent forecasts of the Administration'economists.
The Administration's official forecast is a 10.6% price increase as measured by the Consumer Price Index for this year, although the Administration's chief inflation fighter, Alfred Kahn, does not think, the figure is "achievable".

In the area of consumer prices, KEDI maintains its forecast, that prices of meat, dairy products and other food will remain flat for the rest of the year, but will resume an upwards trend during the first half of 1980.

In the year 1980, besides the constantly growing prices of housing and energy items, the main increases are expected in household appliances and transportation services. Prices of furniture, carpets, apparel and upkeep will grow only moderately.

The picture remains gloomy in the area of producers' prices. No significant changes are shown for any item compared with the September forecast. Producers' prices will climb a monthly adjusted average 1% for the rest of this year and throughout the year 1980.

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.3	227.4	217.4
Producer Price Index, NSA	1967=100	209.3	223.7	231.5	242.1	250.6	237.0
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.7	167.1	171.0	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2391.5	2422.6	2359.0
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1558.7	1504.4
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.1	407.8	392.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.4	231.1	237.1	242.0	246.9	239.3
Producer Price Index, NSA	1967=100	237.0	258.5	263.3	273.9	284.5	270.1
Implicit GNP Price Deflator	1972=100	165.5	173.8	177.6	181.5	184.3	179.3
Gross National Product	bil.$	2359.0	2451.1	2523.4	2592.5	2656.6	2555.6
Personal Cons. Expenditures	bil.$	1504.4	1586.4	1610.2	1650.7	1690.8	1634.5
Gross Private Dom. Investment	bil.$	392.3	404.3	412.8	426.5	438.7	420.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	239.3	252.5	257.1	264.0	268.8	260.6
Producer Price Index, NSA	1967=100	270.1	286.2	293.4	300.6	306.7	296.7
Implicit GNP Price Deflator	1972=100	179.3	187.3	190.5	195.2	199.5	193.1
Gross National Product	bil.$	2555.6	2707.9	2781.2	2869.2	2967.6	2831.5
Personal Cons. Expenditures	bil.$	1634.5	1711.8	1751.3	1796.2	1830.2	1772.4
Gross Private Dom. Investment	bil.$	429.3	453.4	469.2	483.7	495.3	475.4

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 13)

KEDI's forecasted unemployment rate for the fourth quarter has been slightly increased from 6.29% to 6.57% and by an average 0.3% during 1980. The increases are mainly due to the expected increases of numbers of unemployed persons in industries affected by the coming economic downturn. These industries are: automobile, housing, construction, rubber, paper, wood, furniture, household appliances, stone, clay and glass.

The projection shows that the long-heralded increase in unemployment will occur during the fourth quarter of this year and will continue in the first quarter of 1980. For the rest of the year, the prediction presents the following data for the unemployment rate: October 6%, November 6.5%, and December 6.8%. We expect the highest unemployment rate in the first quarter 1980, followed by gradual improvement throughout the remainder of the year and in 1981. The long-term projection shows significant decreases in unemployment rates not earlier than in the years 1982 and 1983.

1.4 HOUSING

(Table 04. on page 15)

KEDI's forecast in the area of housing is more optimistic than the forecasts of other agencies.

During 1980 we expect 1.056 million single-family units starts and .548 million multi-family starts. This is above the widely predicted 1.3 to 1.5 million units starts and the even more pessimistic projection of 1.1 to 1.3 million starts presented by the National Association of Home Builders.

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.2	103.8	103.1
Employed	mil.	94.4	96.5	97.0	97.2	97.0	96.9
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	93.7	93.6
Unemployment Rate	%	6.0	5.77	5.73	5.81	6.57	5.97
Indicator	**Unit**	**1979**	**1980**				**1980**
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.1	104.2	104.8	105.6	106.4	105.3
Employed	mil.	96.9	96.6	97.5	98.5	99.1	97.9
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.6	93.3	94.1	95.1	95.8	94.5
Unemployment Rate	%	5.97	7.26	6.98	6.71	6.81	6.94
Indicator	**Unit**	**1980**	**1981**				**1981**
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	97.9	100.5	101.1	101.9	102.5	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.5	97.2	97.8	98.5	99.2	98.2
Unemployment Rate	%	6.94	6.14	6.43	6.22	6.27	6.27

More optimistic outlook have presented the economists of the U.S. League of Savings Banks. According to their forecast, the impact of increased mortgage rates and the Federal Reserve tight money policy will be not felt immediately, but with a lag of three to five months because of the lending commitments already made. It is expected that the housing sales will continue in the rest of the year and in the first quarter of 1980, and, if no relief will be provided during that time, a drastic decline in building activity would occur in the spring.

In the KEDI's current forecast, new housing prices have been considered. The average price of a single-family home has been increased by approximately 2% in 1981, and by 4% in 1982 and subsequent years. We now anticipate a stronger demand for new homes base on revised population projections. The new data show a persistent demand for approximately 2 million housing units for each year during the coming decade, which will lead to a new round of housing price increases just after the housing slump passes in 1980.

5.0 FEDERAL AND STATE AND LOCAL BUDGETS

(Table 05. on page 17)

The forecast data here have been changes slightly due to preliminary third quarter 1979 estimates recently released by the U.S.Department of Commerce. The projected Federal deficits have been increased because of higher projections of Federal expenditures connected with the expected economic downturn. Also the State and local governments' surpluses have been reduced somewhat in this projection due to the expected additional expenditures on unemployment benefits.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.238	1.164	1.196
Multifamily Housing Starts	mil. units	.567	.496	.575	.588	.560	.555
Mobile Homes Shipments	thous units	276	284	276	278	247	271
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.302	1.256	1.367
Construction Costs-Commerc.	1972=100	164.3	172.7	177.6	185.6	195.9	183.0
Construction Costs-Resident.	1972=100	161.8	171.8	175.5	182.1	192.4	180.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.196	.982	1.063	1.110	1.067	1.056
Multifamily Housing Starts	mil. units	.555	.508	.541	.561	.580	.548
Mobile Homes Shipments	thous units	271	219	230	241	251	235
Housing Permits Issued	mil. units	1.367	1.011	1.029	1.065	1.004	1.028
Construction Costs-Commerc.	1972=100	183.0	198.9	203.7	212.8	217.8	208.3
Construction Costs-Resident.	1972=100	180.5	194.0	201.5	208.9	214.6	204.8

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.056	.999	1.127	1.192	1.193	1.128
Multifamily Housing Starts	mil. units	.548	.550	.581	.609	.649	.597
Mobile Homes Shipments	thous units	235	246	270	287	291	274
Housing Permits Issued	mil. units	1.028	.988	1.065	1.206	1.285	1.136
Construction Costs-Commerc.	1972=100	208.3	221.8	226.0	230.4	240.8	229.8
Construction Costs-Resident.	1972=100	204.8	217.0	221.3	224.5	228.5	222.8

The projection of the Federal deficit for the year 1981 is $22 billion, in contrast with the Administration's promise of a balanced budget in the fiscal year beginning October 1, 1980.

Again, our forecast does not incorporate a tax break, as the possibility of major tax cuts in 1980 seems even less likely. A compromise budget resolution recently reached by House and Senate conferees does not include any tax cut provisions, while setting a ceiling of $547.6 billion on outlays and a floor of $517.8 billion on revenue during the fiscal year. The Committee agreed to aim for a Federal deficit of $29.8 billion during the fiscal year 1979-1980, a higher figure than last year's $27.7 billion.

KEDI expects some fiscal measures will be adopted in mid-1980 to hold down unemployment and to boost consumer spending and business capital outlays (see Assumption No.3). This assumption has been built into all KEDI forecasts since 1976.

1.6 INCOME

(Table 06. on page 19)

A sharp decline in Personal Saving during the third quarter 1979 has caused major adjustments in KEDI's forecast data in the income category. Personal Saving dropped to $66.9 billion from an average $82.5 billion during the first two quarters of this year. Our projected data for Personal Saving for the fourth quarter of this year and the first two quarters of 1980 have been reduced, with a return to a more normal level in the second half of 1980.

KEDI has hit the target with its forecast of corporate after-tax profits for the third quarter 1979, preliminary data show. For the fourth quarter,

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.4	235.8	223.3
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.7	80.1	80.0
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-7.7	-11.2	-9.4
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	43.6	44.0	42.8
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.1	14.3	14.1
Surpl./Deficit	bil.$	27.4	27.6	19.7	21.2	19.1	21.9

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.3	238.2	242.3	248.7	251.4	245.2
Corporate Profit Tax Accruals	bil.$	80.0	80.1	82.0	86.0	91.2	84.8
Surpl./Deficit	bil.$	-9.4	-15.1	-16.7	-18.2	-15.4	-16.4
State and Local Governments:							
Income Taxes	bil.$	42.8	44.6	46.4	47.8	49.8	47.2
Corporate Profit Tax Accruals	bil.$	14.1	14.9	15.8	17.0	17.8	16.7
Surpl./Deficit	bil.$	21.9	18.9	17.3	15.7	16.6	17.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	245.2	256.6	258.1	267.4	270.1	263.1
Corporate Profit Tax Accruals	bil.$	84.8	93.0	96.7	102.3	107.8	100.0
Surpl./Deficit	bil.$	-16.4	-20.5	-21.6	-22.1	-26.4	-22.7
State and Local Governments:							
Income Taxes	bil.$	47.2	51.2	53.2	55.4	56.7	54.1
Corporate Profit Tax Accruals	bil.$	16.7	18.6	19.7	21.4	22.7	20.6
Surpl./Deficit	bil.$	17.1	18.7	21.2	24.0	25.6	22.4

we expect a further decline in profits of auto makers, and a decline in in the profits or increased losses of the airline, steel and rubber industries. In general, the corporate profit outlook for 1980 is optimistic. The projection shows steady increases in profits, despite the anticipated recession. This corresponds with the views of many Wall Street economic forecasters, whose projections rather a slowing of growth than a declining of profits. For example, the monthly summary prepared by the Institutional Brokers Estimate System, and based on projections of approximately 2.000 companies, shows the average 5.6% increase in profits in 1980 as compared with the year 1979.

Personal Income also is not expected to have any dramatic decline during the period of anticipated recession, although farmers' income is projected lower in 1980 than in 1979. Agriculture Department officials expect net farm income to drop to about $27 billion from the predicted $30 billion this year, a decrease of about 10%. The anticipated decrease is based largely on continuing high costs of fuel and fertilizer, officials say.

1.7 MONEY AND CREDIT

(Table 07. on page 21)

KEDI expects slower growth in the money supply throughout the fourth quarter of 1979 and the first quarter of 1980. Our forecast data of the money supplies M1 and M2 have been reduced due to (1) the revised October 3 and October 10 data recently released by the Federal Reserve Board, and (2) changes in Assumption No.9.

The projected data for monetary and credit aggregates show no drastic downturn during the rest of this year or in 1980. However, calculations,

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1943.5	1980.1	1917.2
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1636.9	1656.7	1616.9
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1471.8	1481.3	1451.2
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	144.5	139.9	141.4
Personal Saving	bil.$	72.0	79.2	85.9	66.9	77.4	77.4
Average Weekly Earnings	$	203.3	212.4	217.8	222.6	226.3	219.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1917.2	2030.1	2140.7	2201.6	2280.3	2163.2
Personal Dispos. Income	bil.$	1616.9	1704.1	1756.1	1850.8	1970.3	1820.3
Compensation of Employees	bil.$	1451.2	1508.6	1602.1	1697.3	1762.1	1642.5
Corp. Profits After Tax	bil.$	141.4	140.0	146.9	160.1	167.4	153.6
Personal Saving	bil.$	77.4	82.3	87.3	90.4	92.3	88.1
Average Weekly Earnings	$	219.8	227.3	230.6	236.5	239.4	233.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2163.2	2340.2	2410.5	2480.7	2540.7	2443.0
Personal Dispos. Income	bil.$	1820.3	2004.3	2040.3	2121.5	2186.3	2088.1
Compensation of Employees	bil.$	1642.5	1800.6	1849.2	1953.1	1990.4	1898.3
Corp. Profits After Tax	bil.$	153.6	171.2	178.5	183.3	185.7	179.7
Personal Saving	bil.$	88.1	93.6	97.1	97.8	99.5	97.0
Average Weekly Earnings	$	233.5	242.7	248.7	251.6	262.8	251.5

conducted by this Institute show, that a credit crisis might occur if interest rates are pushed higher than present levels. A serious downturn might occur if the Federal Reserve discount rate reaches approximately 15%, with a corresponding 17% to 18% prime rate, and with the corresponding tight money Federal Reserve policy. The present 12% discount rate and 15 1/4% prime rate do not indicate a danger of a credit crunch.

Henry C.Wallich, member of the Board of Governors of the Federal Reserve System, also maintains that current interest rates seem "very unlikely" to cause a credit crisis. Pressures are mounting, however, for a further increase in the discount rate. Besides the domestic strong demand for credit, there is increasing pressure from outside. West Germany's central bank has raised its discount rate from 5% to 6%, the Netherlands bank from 8% to 8 1/2%, Canada to 14%, and it is expected that soon will the rates the central banks in France and Japan. These pressures on the dollar may well push the U.S. rate as much as full percentage point, according to some economists.

This leads to conclude that further hikes in interest rates are not unlikely. However, KEDI maintains its position that the period of tight monetary and credit policy is expected to last no longer than the first quarter of 1980.

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 08. on page 23)

Further increases in interest rates are possible in the near future, as discussed in the previous section. Also, our forecast for long-term interest rates indicates that the market has not yet been stabilized. KEDI's projection shows that mortgage rates will reach an average 12.2% for residential

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1 *	2 *	3	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.4	392.2	376.4
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.1	659.7	639.2
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.2	297.4	297.4
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.1	265.1
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	114.8	114.8
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.3	453.1	453.1

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.4	402.4	411.7	419.8	424.5	414.6
Time Deposits, Adjusted	bil.$	639.2	667.8	680.3	696.7	718.6	690.9
Consumer Instal. Credit	bil.$	297.4	301.1	305.2	310.7	316.4	316.4
Commerc.and Ind. Loans at Banks	bil.$	265.1	267.1	269.3	272.8	279.5	279.5
Negotiable Cert.of Deposits	bil.$	114.8	120.6	127.2	130.3	132.3	132.3
Mortgages at S&L Assns.	bil.$	453.1	455.4	460.7	464.5	479.3	479.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.4	430.3	436.8	449.8	460.3	444.3
Time Deposits, Adjusted	bil.$	690.9	728.2	746.8	759.3	778.9	753.3
Consumer Instal. Credit	bil.$	316.4	322.5	330.7	339.6	350.4	350.4
Commerc.and Ind. Loans at Banks	bil.$	279.5	283.4	295.9	310.6	319.5	319.5
Negotiable Cert.of Deposits	bil.$	132.3	135.4	140.7	147.9	158.6	158.6
Mortgages at S&L Assn.	bil.$	479.3	482.7	495.4	503.1	514.8	514.8

new mortgages by the end of the year and will not begin a decline until the second quarter of 1980.

The forecast data for interest rates on consumer loans have been almost unaffected when compared our current forecast with the forecasts presented in the first half of this year.

The stock market forecast does not indicate any significantly larger impact of the expected economic downturn on the price of stock. The projection of the Standard & Poors 500 average for the rest of the year shows small fluctuations around the 102 level, with significant increases during the second half of 1980.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Index of Industrial Production for the third quarter 1979 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the FEDERAL RESERVE. Industrial Production. G.12.3, October, 1979 issue, Table 1-A, page 2. Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond, Va., February 1979, Library of Congress Catalogue Card No: 75-189493. Table on page 24 shows the predictions of forecasters and the deviations of forecast data.

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.74	10.13
Prime Rate	%	9.06	11.75	11.75	12.31	15.63	12.86
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.12	10.32
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	9.97	9.63
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.47	9.51
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	101.54	106.27	101.84

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.13	12.46	12.03	10.85	10.47	11.45
Prime Rate	%	12.86	15.68	14.01	12.56	11.42	13.42
Mortgage Rate, New Homes	%	10.32	11.57	11.41	11.02	10.94	11.24
Aaa Bonds Rate	%	9.63	10.24	10.15	10.06	9.73	10.05
Long Term Govt. Bonds Yield	%	9.51	10.76	10.64	10.12	9.78	10.33
Standard & Poor's 500 Average	1941-43=100	101.84	101.03	99.56	102.76	103.12	101.62

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.45	10.13	9.87	9.65	9.48	9.78
Prime Rate	%	13.42	11.06	10.14	9.73	9.28	10.05
Mortgage Rate, New Homes	%	11.24	10.57	10.36	10.06	9.87	10.23
Aaa Bonds Rate	%	10.05	9.47	9.27	9.20	9.36	9.33
Long Term Govt. Bonds Yield	%	10.33	9.65	9.54	9.47	9.42	9.52
Standard & Poor's 500 Average	1941-43=100	101.62	103.16	105.17	107.13	109.24	106.18

TABLE 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS INDEX OF INDUSTRIAL PRODUCTION

(third quarter 1979, 1967 = 100)

Actual: 152.1

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
American Statistical Association and National Bureau of Economic Research	19	148.0	-1.4
Cyrus T. Lawrence, Inc.	21	145.2	-3.9
The First National Bank of Chicago	22	151.6	-0.1
General Electric Company	23	146.0	-4.1
University of California	25	145.1	-4.6
The Fidelity Bank	26	154.0	+0.1
Bankers Trust Company	27	150.4	-0.1
Chemical Bank	28	153.1	+0.1
KEDI	29	150.4	-0.1
Manufacturing Hanover Trust	30	145.9	-4.1
Argus Research Corporation	31	145.7	-4.1
Morgan Guaranty	32	149.7	-1.6

Vol. 5, No. 6, November 30, 1979

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recd 7/14/80

KEDI ECONOMIC SURVEY

NOVEMBER ISSUE

November 30, 1979

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquires should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 117900424
KEDI November 30, 1979

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Our forecast of an impending mild decline does not deviate significantly from the forecast presented in the October issue. We maintain our prediction of the following trend:

Fourth quarter 1979 and first quarter 1980: Decline in economic activity.

Second and third quarters 1980: Increase to pre-recession level.

Fourth quarter 1980 and the year 1981: Sluggish growth with a more significant upturn not expected before the second half of 1982.

Since 1976, this Institute has maintained in each forecast that 1979 would be characterized by an economic slowdown, but NO recession, a view which has contrasted sharply with predictions of other major forecasters. (One well-established U.S. forecaster has been constantly predicting the recessions each year since 1976).

KEDI's forecast has been confirmed by recently released data from the U.S. Department of Commerce which indicate 1979 will not be marked as a recession year.

KEDI maintains that the slowdown in economic activity will be only temporary and relatively mild, followed by sluggish growth in 1980 and 1981. Many other forecasters NOW have begun to adopt this position.

Indications from the business world also tend to support this prediction. In the area of business capital outlays, the stagnation is predicted by most forecasters. Wall Street economists expect business investments to drop soon and level throughout 1980. Alan Greenspan, head of the consulting firm Townsend-Greenspan & Co., was recently quoted as saying capital outlays are expected to drop 6.3% in 1980, but with positive real growth expected by 1982. The Conference Board, a business research organization, expects a decline of 8% or more, in real terms, during 1980.

Consumer spending, after an adjustment for inflation, is predicted by some economists to rise only 0.6% next year following a large decline during the fourth quarter of 1979. Real spending for durable goods is expected to be under year-earlier levels for the next five quarters, with the decline being felt heavily in the automobile industry.

Steel demand in 1980 is expected to fall off about 6% from 1979 levels with industry shipments falling about 10%.

The U.S. Department of Commerce estimates that while spending for new construction in 1980 will equal spending in 1979, about 9% less actual work will be financed because of inflation. Their forecast is based on a prediction of a moderate recession lasting until the second half of 1980.

The projections of a mild decline in economic activity is supported by the following developments: The Conference Board's Index of Consumer Confidence has increased for the second consecutive month, indicating that consumers are reversing the pessimistic outlook about the economy which was prevalent during the first half of the year.

Another bright note is a surge in machine tool orders, which normally are placed about two years in advance. This would indicate that industries, particularly the automobile and aircraft industries, see the light at the end of the tunnel, so to speak, and expect an upturn in 1982.

KEDI forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the October, 1979, forecasts, the changes concern the Assumption No. 1.

1. In 1979 and 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average \$26 per barrel and in 1980 this figure will go up to the \$32 range. In 1981, it is expected the price will go up on \$36 and in 1982, on \$43 per barrel.

2. The supply of Iranian oil will settle to a normal flow in the second part of 1980.

3. Starting third quarter 1979, the Administration will pursue the policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. 1972$	1399.2	1427.3	1426.6	1702.4
Index of Industrial Production	1967 =100	145.2	151.8	151.6	167.0
Capacity Utilization	%	86.4	85.5	80.8	85.9
Unemployment Rate	%	6.0	6.0	6.9	6.1
Private Housing Starts	mil. units	2.020	1.728	1.526	1.896
Car Sales	mil. units	11.3	10.7	10.1	12.3
Implicit GNP Price Deflator	1972 =100	152.1	165.3	178.9	273.4
Consumer Price Index	1967 =100	195.3	217.3	238.6	371.6
Producer Price Index	1967 =100	209.3	234.4	264.4	397.5
Federal Deficit	bil. $	-27.7	-11.0	-19.7	-20.6
Personal Income	bil. $	1717.4	1918.4	2168.1	3249.7
Prime Rate	%	9.06	12.73	13.24	9.96
Mortgage Rate	%	9.30	10.52	11.35	9.78
Currency plus Demand Deposits	bil. $	352.8	376.4	414.5	640.4
Commercial and Industrial Loans	bil. $	230.9	263.8	277.8	441.5

the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will expand more rapidly starting the end of this year, and will gain a substantial momentum in 1980 and 1981.

6. This year, the U.S. will experience a good harvest and the U.S.S.R. an extra low one. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980, and 1981 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981
West Germany	3.0%	3.1%	3.4%
Italy	2.9	3.0	3.1
Japan	3.2	3.5	3.7
Great Britain	1.4	1.8	2.1
France	2.8	2.9	3.0

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will remain at low levels in 1979 and throughout 1980. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH
(Table 01. on page 9)

Despite growing signs of weakness in the economy, the overall picture still has some bright spots. Our forecast data here have been changed very slightly from the previous issue, due mainly to:

(1) Revised GNP and components estimates for the third quarter 1979, which are higher than previously announced.

(2) Record levels of machine tool orders in October and indications that November's figures will also be high. Many machines won't be delivered for one to two years, indicating that businesses are expecting an upturn in 1981 and 1982.

(3) Increases in construction spending and retail sales in November. Major retailers reported slight gains for November, but these figures failed to keep pace with inflation. Kmart's sales are up about 13% from last year and F.W. Woolworth's sales are up about 10%.

(4) Good overall performance in manufacturing in October. The index of industrial production has been up and there has been a substantial increase in the production of consumer goods. A temporary decline in business equipment is attributed largely to strikes by the United Auto Workers union against Deere & Co. and Caterpillar Tractor Co., manufacturers of farm and construction equipment.

The forecast of capacity utilization rates in Table 01. has been increased due to the revision of the historical series conducted recently by the Board of Governors of the Federal Reserve System.

Due to (1) through (3), above, we have increased our prediction of real growth slightly.

KEDI's forecast of a mild recession has been confirmed recently by Treasury Secretary G. William Miller. Miller expects the economy will follow a "lazy W" pattern, declining, recovering and declining again. This pattern has occurred during 1979, with a downturn during the second quarter, an upswing in the third quarter, and now an expected slump during the fourth quarter. Miller expects a recession into the early part of 1980 with recovery beginning during the second half of the year.

In real terms, our forecast does not indicate that the Iranian crisis will have a significant impact. We maintain that the longer the crisis holds, the more it will magnify the risks of an economic downturn. The crisis is still too current for us to change our Assumption No. 2, which says that the flow of Iranian oil will resume at normal levels during the second half of 1980.

KEDI's position follows the majority of other forecasters: the impact will be felt more in the prices of oil and the international position of the dollar than in real terms.

Analysis of the recent data shows that the economy is sliding into a mild recession, as outlined in our previous forecasts.

(1) Orders for durable goods in October fell an adjusted 4.2%, due mainly to a decline in orders from the aircraft industry.

(2) Inventories were reduced sharply in October, according to a survey of corporate purchasing managers, recently released by the National

Association of Purchasing Management.

(3) Automakers have cut their already low December production schedules. The current schedule is the second lowest for December in 15 years. (The lowest was in 1974). New-model car sales are running about 19% behind year-earlier levels.

(4) The nation's productivity during the third quarter was even worse than the original figures indicated, according to revised Labor Department data. Productivity declined at a seasonally adjusted 0.7%, compared to earlier figures which showed slight increases in the private and non-farm business sectors.

Data for (1) - (3) are in line with the KEDI forecast. The data (4) worsen the long-term outlook for the U.S. economy. If the declining trend in the productivity of U.S. labor will continue, the upwards revision of price forecast will become necessary. Present KEDI forecast contains a less significant decrease in productivity, namely .2% for the third quarter 1979, and the resumption of positive growth in 1981. For the year 1980, we expect the levelling off, with slightly positive growth of .1% at the end of the year.

1.2 PRICES AND NOMINAL GNP

(Table 02. on page 12)

Two adjustments have been made here since our October forecast. We now expect:

(1) A larger jump in the international price of oil than we previously assumed (Assumption No. 1), and

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1434.4	1421.8	1427.3
Index of Indust. Production	1967=100	145.2	151.5	151.8	152.2	151.2	151.8
Unemployment Rate	%	6.0	5.8	5.7	5.8	6.5	6.0
Capacity Utilization Rate	%	86.4	86.7	85.9	85.3	83.9	85.5
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.633	1.728
Car Sales	mil. units	11.3	11.7	10.9	10.5	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1427.3	1414.8	1416.9	1430.7	1443.8	1426.6
Index of Indust. Production	1967=100	151.8	149.7	151.2	152.3	153.0	151.6
Unemployment Rate	%	6.0	7.1	7.0	6.6	6.8	6.9
Capacity Utilization Rate	%	85.5	80.1	80.0	80.4	82.6	80.8
Private Housing Starts	mil. units	1.728	1.414	1.508	1.604	1.574	1.526
Car sales	mil. units	10.7	9.3	9.7	10.4	10.7	10.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1426.6	1450.2	1463.5	1473.7	1490.3	1469.5
Index of Indust. Production	1967=100	151.6	153.2	153.9	155.1	155.7	154.5
Unemployment Rate	%	6.9	6.2	6.5	6.4	6.2	6.3
Capacity Utilization Rate	%	80.8	83.3	83.7	84.1	85.1	84.2
Private Housing Starts	mil. units	1.526	1.536	1.692	1.788	1.807	1.708
Car sales	mil. units	10.1	10.4	11.2	11.3	11.7	11.2

*Historical data

(2) A lower price trend in consumer and producer prices than we previously anticipated. Our predicted price increases have been reduced somewhat due to the new forecast of a lower demand for new housing, services and automobiles in the consumer sector, and lower demand for construction and manufacturing products.

The above two adjustments have resulted in an insignificant change in the overall measures of price developments. The forecast data for the Implicit GNP price deflator in 1980 and 1981 have been reduced by an average 0.1%, the Consumer Price Index by an average 0.3%, and the Producers' Price Index by an average 0.4% to 0.6%.

In the area of food prices, the KEDI forecast is quite close to the recently released forecast of the U.S. Department of Agriculture. Both forecasts present a grim outlook, however, as the following comparison shows:

	USDA	KEDI
	Price increases in 1980 compared to 1979	
Beef and veal	+8.2%	+8.5%
Dairy products	+9.2%	+9.0%
Cereal and bakery products	+8.9%	+9.3%
Processed fruits and vegetables	+8.2%	+8.0%
Fats and oils	+7.4%	+7.6%
Sugars and sweets	+8.0%	+9.0%

In the area of producer's prices, KEDI expects the major increases, aside from energy items, to be in the prices of nonferrous metals, machine tools, plastics, electrical machinery, and chemicals.

An analysis recently conducted by KEDI shows that major contributors to the inflation rate in 1980 and 1981 will be prices of exported and imported goods and services, mainly due to the low international position of the dollar. Export prices are expected to increase in 1980 and 1981 by 14.4% and 13.5%, respectively, and import prices by 15.8% and 15.0%, respectively. When excluded, the prices of exported and imported goods and services, the overall increase in prices would be significantly lower, namely the respective 8.9% and 8.5% when measured by the Producers' Price Index. The price analysis of the U.S. foreign trade will appear in the December 1979 extra issue of KEDI Economic Survey.

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 14)

The unemployment rate rose to 6.0% in October, and indications are that the November rate will increase an additional 0.2%.

Compared to our previous forecast, forecast data here have been reduced slightly. Main factors contributing to this change are:

(1) A new projection of U.S. productivity, which shows a continued slight decline as compared to previous forecasts. Lower growth in productivity keeps more employees on payrolls.

(2) A slightly improved forecast for services during the rest of this year and throughout 1980 and 1981. Thus, unemployment in the service industries has been reduced somewhat.

The resulting forecast data for unemployment show the same trend as indicated in our previous forecasts. We expect unemployment to peak, although not dramatically, during the first quarter of 1980 and then

TABLE 02. PRICES AND NOMINAL GNP

(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	226.9	217.3
Producer Price Index, NSA	1967=100	209.3	223.7	231.5	238.8	243.7	234.4
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.7	167.0	170.1	165.3
Gross National Product	bil.$	2107.6	2292.1	2329.8	2395.4	2418.5	2359.1
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1527.7	1556.2	1503.5
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	393.7	407.5	392.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.4	230.7	236.5	241.2	246.1	238.6
Producer Price Index, NSA	1967=100	237.0	251.2	259.7	269.5	277.1	264.4
Implicit GNP Price Deflator	1972=100	165.5	173.4	177.2	181.0	183.9	178.9
Gross National Product	bil.$	2359.0	2453.3	2510.6	2589.6	2655.1	2552.2
Personal Cons. Expenditures	bil.$	1504.4	1583.4	1604.5	1645.8	1689.4	1630.8
Gross Private Dom. Investment	bil.$	392.3	404.1	411.2	422.6	439.8	419.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	239.3	251.1	256.2	263.1	267.8	259.6
Producer Price Index, NSA	1967=100	270.1	280.3	286.7	292.5	297.8	289.3
Implicit GNP Price Deflator	1972=100	179.3	186.9	190.1	194.9	199.2	192.8
Gross National Product	bil.$	2555.6	2710.4	2782.1	2872.2	2968.7	2833.4
Personal Cons. Expenditures	bil.$	1634.5	1714.1	1753.1	1799.7	1832.1	1774.8
Gross Private Dom. Investment	bil.$	429.3	454.1	470.3	484.1	496.2	476.2

*Historical data

to gradually decline.

This is in line with government economists' predictions. Treasury Secretary G. William Miller feels that while a rise in the jobless rate is consistent with the general economic trend at the present time, he does not feel it is cause for alarm. Other government analysts feel that the economy is slowing down, but not sharply or suddenly.

As KEDI predicted previously, unemployment will primarily affect the automobile, construction, housing, rubber, paper, glass, stone and clay industries.

Forecast data for the average workweek of nonfarm workers also reflects a recessionary trend during the rest of 1979 and in 1980 and 1981:

Average workweek, nonfarm workers:

1979:3	35.6 hours	1980:2	34.9 hours
1979:4	35.3 hours	1980:3	35.3 hours
1980:1	34.2 hours	1980:4	35.5 hours

1.4 HOUSING

(Table 04. on page 16)

KEDI forecast for housing unit starts has been slightly reduced for the rest of the year and for the first quarter of 1980, compared to our October forecast.

KEDI's projection is more optimistic than the outlook of the majority of forecasters in this area.

We expect housing starts in 1980 to be down to approximately 1.6 million

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.2	103.8	103.1
Employed	mil.	94.4	96.5	97.0	97.2	97.0	96.9
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	93.7	93.6
Unemployment Rate	%	6.0	5.77	5.73	5.81	6.51	5.96

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.1	104.2	104.8	105.6	106.4	105.3
Employed	mil.	96.9	96.8	97.5	98.6	99.2	98.0
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.6	93.5	94.1	95.2	95.9	94.6
Unemployment Rate	%	5.97	7.14	6.96	6.61	6.80	6.88

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	97.9	100.5	101.0	101.8	102.6	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.5	97.2	97.7	98.4	99.3	98.2
Unemployment Rate	%	6.94	6.17	6.50	6.37	6.19	6.31

*Historical data

units; 1.1 million single-family units and 0.5 million multi-family units.

This contrasts with the recent pessimistic forecast of the National Association of Home Builders of 1.26 million to 1.4 million starts, and the Brookings Institution's prediction of 1.3 million starts.

Forecasters are in accord, however, that the first half of 1980 will be the worst and recovery will begin during the second half of the year. Despite this, the outlook continues to be bleak in general for the next two years, with stronger recovery not earlier than in the second half of 1982.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS

(Table 05. on page 17)

Forecast data for Federal and State and local budgets have been adjusted here, chiefly due to the Commerce Department's routine update of third quarter 1979 revised estimates. Main adjustments are in the areas of state and local personal income taxes and surpluses.

KEDI has not incorporated an additional tax break measure into this forecast, although with the coming recession the outlook for a major tax break seems more likely.

A combined fiscal measure, aimed at holding down unemployment and boosting consumer spending and business outlays (Assumption No. 3), has been incorporated into all KEDI forecasts since 1976.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.102	1.180
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.531	.548
Mobile Homes Shipments	thous units	276	284	276	260	230	263
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.107	1.330
Construction Costs-Commerc.	1972=100	164.3	172.7	177.6	185.7	196.0	183.0
Construction Costs-Resident.	1972=100	161.8	171.8	175.5	182.3	192.7	180.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.180	.927	.991	1.075	1.013	1.002
Multifamily Housing Starts	mil. units	.548	.487	.517	.529	.561	.524
Mobile Homes Shipments	thous units	263	195	224	236	240	224
Housing Permits Issued	mil. units	1.330	.976	.984	1.003	.994	.989
Construction Costs-Commerc.	1972=100	183.0	198.7	203.6	212.9	218.0	208.3
Construction Costs-Resident.	1972=100	180.6	194.9	202.1	209.2	215.1	205.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.002	.995	1.120	1.187	1.179	1.122
Multifamily Housing Starts	mil. units	.524	.541	.572	.601	.628	.586
Mobile Homes Shipments	thous units	224	246	262	273	289	268
Housing Permits Issued	mil. units	.989	.965	1.027	1.105	1.197	1.074
Construction Costs-Commerc.	1972=100	208.3	222.1	226.5	230.9	241.2	230.2
Construction Costs-Resident.	1972=100	205.3	218.1	221.6	224.8	228.6	223.3

*Historical data

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.5	235.9	223.4
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.8	81.3	78.3
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.1	-11.0
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	41.4	42.9	42.0
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.8	14.9	14.8
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.7	20.9	23.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	239.8	243.4	250.8	253.2	246.8
Corporate Profit Tax Accruals	bil.$	78.3	81.2	82.9	87.4	91.0	85.6
Surpl./Deficit	bil.$	-11.0	-17.1	-18.7	-19.3	-17.1	-18.1
State and Local Governments:							
Income Taxes	bil.$	42.0	43.5	45.7	48.5	50.1	47.0
Corporate Profit Tax Accruals	bil.$	14.8	15.3	16.7	17.8	18.7	17.1
Surpl./Deficit	bil.$	23.5	20.6	20.1	19.2	18.0	19.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.8	259.8	260.3	269.1	271.8	265.3
Corporate Profit Tax Accruals	bil.$	85.6	94.6	97.8	102.4	108.7	100.9
Surpl./Deficit	bil.$	-18.1	-20.9	-22.4	-21.3	-19.8	-21.1
State and Local Governments:							
Income Taxes	bil.$	47.0	51.6	53.9	56.0	57.1	54.7
Corporate Profit Tax Accruals	bil.$	17.1	19.4	20.5	22.3	23.8	21.5
Surpl./Deficit	bil.$	19.5	18.0	19.3	21.5	23.7	20.6

*Historical data

1.6 INCOME

(Table 06. on page 19)

Personal income was up 0.8% in October and is expected to rise an additional 0.3% in November, indicating that the economy is still fairly strong and does not show signs of a drastic decline during the coming months.

Third quarter 1979 data show a deteriorating relationship between income and personal savings. During this quarter, personal savings dropped to $70.5 billion from $85.9 billion, indicating that despite an increase in income, consumer spending has been increasingly financed from the population's savings. Our projection shows that this trend will continue during coming quarters and will not improve earlier than the third quarter of 1980.

This contrasts with opinions of government economists, who contend that the savings rate will return to normal soon. William Cox, Commerce Department analyst has said he expects consumer spending to decline during the coming months and savings to increase.

Corporate income rose more rapidly than personal income during the third quarter of 1979. Corporate profits were up 6.2%, and KEDI predicts continuous, strong increases in corporate profits during the coming quarters, despite the apparent recession.

In line with our forecast are recent projections by Wall Street analysts, who, although more cautious than they were in recent months, expect an average 5.1% increase in profits next year. This is taken from the most recent compilation of 10,104 estimates of 1980 earnings collected by economists of the Institutional Brokers Estimate System.

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1945.9	1982.8	1918.4
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1659.4	1618.2
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.9	1482.7	1451.9
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	147.9	143.6	143.2
Personal Saving	bil.$	72.0	79.2	85.9	70.5	73.5	77.3
Average Weekly Earnings	$	203.3	212.4	217.8	221.2	223.4	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1918.4	2034.6	2145.7	2205.2	2286.7	2168.1
Personal Dispos. Income	bil.$	1618.2	1705.3	1759.2	1858.7	1976.4	1824.9
Compensation of Employees	bil.$	1451.9	1509.9	1604.6	1698.7	1764.0	1644.3
Corp. Profits After Tax	bil.$	143.2	145.6	149.7	166.8	173.7	159.0
Personal Saving	bil.$	77.3	75.7	80.2	87.3	90.4	83.4
Average Weekly Earnings	$	218.7	225.7	228.2	233.1	235.6	230.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2168.1	2345.2	2416.7	2484.9	2547.3	2448.5
Personal Dispos. Income	bil.$	1824.9	2010.3	2048.6	2127.8	2192.2	2094.7
Compensation of Employees	bil.$	1644.3	1802.1	1852.0	1955.8	1998.6	1902.1
Corp. Profits After Tax	bil.$	159.0	177.8	184.3	189.8	191.8	185.9
Personal Saving	bil.$	83.4	94.8	98.6	99.5	103.6	99.1
Average Weekly Earnings	$	230.7	240.2	244.3	248.7	259.4	248.2

*Historical data

1.7 MONEY AND CREDIT
(Table 07. on page 21)

Forecast data for money and credit have been changed slightly from our October issue. Data for the money supply have been increased and data for commercial and industrial loans have been decreased, due to routine revisions of the October 1979 estimates and early November statistics.

KEDI maintains its assumption of a relaxation of the Federal Reserve monetary and credit policies beginning the second quarter of 1980. First indications of possible easing of current tight policies appeared recently when Federal Reserve Board chairman Paul Volcker admitted that if the economy slows, lower interest rates may be a possibility. Volcker also said that oil price hikes could force the Fed to raise its low target levels for the money supply.

KEDI's forecast does not include any substantial increases or declines in the availability of credit for the rest of this year and for 1980 and 1981. This has also been recently confirmed by a Fed official, who said that a nationwide "credit crunch" is unlikely.

Also, recently released data for consumer credit in September and early statistics for October and November confirm KEDI's prediction. The statistics show constant, strong increases in all categories and indicate that consumers handle credit more extensively than businesses.

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 08. on page 23)

Despite recent decreases in the prime lending rate and possible further decreases in December, KEDI maintains the position that more significant cuts in interest rates will not occur before the second quarter of 1980,

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	392.1	376.4
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	660.1	639.3
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	297.9	297.9
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	263.8	263.8
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	114.5	114.5
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	452.9	452.9
Indicator	**Unit**	**1979**	**1980**				**1980**
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.4	402.1	411.5	419.7	424.7	414.5
Time Deposits, Adjusted	bil.$	639.3	668.2	682.1	698.0	719.8	692.0
Consumer Instal. Credit	bil.$	297.9	301.8	306.1	312.3	317.1	317.1
Commerc.and Ind. Loans at Banks	bil.$	263.8	267.0	268.7	270.6	277.8	277.8
Negotiable Cert.of Deposits	bil.$	114.5	120.1	126.4	129.5	130.1	130.1
Mortgages at S&L Assns.	bil.$	452.9	452.1	459.5	463.2	478.7	478.7
Indicator	**Unit**	**1980**	**1981**				**1981**
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.5	430.5	437.1	450.6	462.1	445.1
Time Deposits, Adjusted	bil.$	692.0	729.0	748.1	760.4	780.5	754.5
Consumer Instal. Credit	bil.$	317.1	323.1	331.9	340.8	352.3	352.3
Commerc.and Ind. Loans at Banks	bil.$	277.8	282.9	295.6	311.7	321.9	321.9
Negotiable Cert.of Deposits	bil.$	130.1	132.1	136.3	141.6	151.7	151.7
Mortgages at S&L Assn.	bil.$	478.7	481.5	494.9	502.9	512.7	512.7

*Historical data

and even then the decline will not be dramatic.

For 1980, KEDI predicts that the prime rate will drop not less than 12% at the end of the year, the mortgage rate about 11% and the AAA bond rate approximately 10% at the end of the year (see Table 08., Interest Rates, Yields and Securities Prices).

Some forecasters see a more rosy future, however. Some bankers see the prime rate slipping below 11% by the end of next year as the demand for business credit decreases. Economists of Bankers Trust predict the rate will be about 10% by the end of 1980. Officials of the Irving Bank Corp., parent company of Irving Trust Co., have predicted that short-term interest rates will decline as much as five percentage points by the end of next year.

Other economists are more cautious. An executive of Salomon Brothers, a New York-based investment firm, finds speculation about declining interest rates "premature." Other experts feel that current reductions are merely temporary, as inflation is still at high levels.

The KEDI's stock market forecast remains essentially unchanged when compared with data presented in the October 1979 issue.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Housing Starts for the third quarter 1979 have been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the FEDERAL RESERVE. Industrial Production. G.12.3, October, 1979 issue, Table 1-A, page 2. Forecast data are from Business Forecasts 1979, published by the Federal

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate (new issues)	%	7.22	9.26	9.61	9.89	11.98	10.19
Prime Rate	%	9.06	11.75	11.75	12.31	15.12	12.73
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.08	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.51	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	101.54	104.37	101.36

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate (new issues)	%	10.14	12.36	11.21	10.95	10.62	11.29
Prime Rate	%	12.73	14.86	13.81	12.76	11.53	13.24
Mortgage Rate, New Homes	%	10.44	11.82	11.40	11.22	10.96	11.35
Aaa Bonds Rate	%	9.65	10.34	10.11	10.02	9.81	10.07
Long Term Govt. Bonds Yield	%	9.51	10.50	10.43	10.22	9.87	10.26
Standard & Poor's 500 Average	1941-43=100	101.36	101.14	99.61	102.52	103.03	101.58

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate (new issues)	%	11.29	10.23	9.94	9.78	9.51	9.86
Prime Rate	%	13.24	11.01	10.16	9.79	9.48	10.11
Mortgage Rate, New Homes	%	11.35	10.54	10.30	10.01	9.80	10.17
Aaa Bonds Rate	%	10.07	9.57	9.41	9.28	9.45	9.43
Long Term Govt. Bonds Yield	%	10.26	9.69	9.50	9.43	9.40	9.51
Standard & Poor's 500 Average	1941-43=100	101.58	103.05	105.28	107.46	108.17	105.99

*Historical data

Reserve Bank of Richmond, Va., February 1979, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

HOUSING UNITS STARTS

(third quarter 1979, in mil. units)

Actual: 1.825

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
Consensus of National Association of Business Economists	18	1.748	-4.2
American Statistical Association and National Bureau of Economic Research	19	1.630	-10.3
Cyrus J. Lawrence, Inc.	21	1.500	-17.8
General Electric Co.	23	1.430	-21.6
UCLA National Business Forecast	25	1.491	-18.3
The Fidelity Bank	26	1.700	-6.8
Bankers Trust Company	27	1.500	-17.8
Chemical Bank	28	1.650	-9.6
KEDI	29	1.804	-1.2
Manufacturers Hanover Trust	30	1.589	-12.9
Argus Research Corporation	31	1.690	-7.4
Morgan Guaranty	32	1.522	-16.6

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U.S.ECONOMY

OUTLOOK FOR 1980

KEDI ECONOMIC SURVEY

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

Vol. 5, No. 7, December 31, 1979

U.S.ECONOMY

OUTLOOK FOR 1980

KEDI ECONOMIC SURVEY

DECEMBER ISSUE

December 31, 1979

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquires should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 127900434
KEDI December 31, 1979

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Long-term Outlook

KEDI's long-term forecast for the 1980's shows an overall slower growth rate than during the 1970's, with two distinct growth cycles culminating in years of high inflation and energy shortages.

On the average, KEDI expects the U.S. economy to grow at a 1.8 - 1.9% yearly rate, contrasted with an average 2.0% yearly rate during the 70's. Two cycles are predicted, one spanning the years 1981 to 1985, and the second from 1985 to 1990. Growth will be continuous but slow during each of these cycles. Peak growth years will be 1984 and 1989, with moderate slowdowns following due to expected energy crunches and a steel shortage in the middle of the decade.

KEDI also expects productivity to increase an average 1.8 - 2.0% yearly, which is in line with the predictions of other major forecasters.

Inflation rate is expected to follow a see-saw pattern throughout the decade, with periods of a 10% or higher followed by years of lower inflation. A slowdown to 9% is forecasted for 1982, with a resumption of 10% or more in 1983 to 1985. 1987 and 1988 will see an even sharper slowdown below 8%, then the rate will jump back to 10% during the closing years of the decade.

As for world trade during the 80's, the U.S. will slightly decrease its share of exports, although it will remain a leading exporter of machinery and food products. KEDI projects that the U.S. share of world exports of machinery will drop insignificantly and exports of agricultural products will keep increasing throughout the decade.

On the import scene, U.S. dependence on foreign oil will drop somewhat, with a decline from the present 49% to about 45% expected by the end of the decade.

While this is encouraging, the U.S. will become more vulnerable in other areas, namely in increasing dependency on imports of raw materials and minerals. The following table shows a comparison of the imported percentages of our yearly demand now and 1990:

	Now	1990
Iron ore	25%	35%
Nickel	70%	80%
Manganese	95%	95%
Cobalt	95%	95%
Chromium	85%	90%
Zinc	50%	60%
Tin	80%	85%
Aluminum and bauxit	90%	95%
Asbestos	80%	90%
Potasium	60%	70%

Turning from the external to the internal provides a brighter outlook. Automobile sales, which are expected to be at a low of 10.4 million during 1980, will climb to 14.2 million by 1990. Housing starts, which are now in a fairly steep slump at 1.6 million, will also climb to 2.4 million by the end of the decade. And, according to Commerce Department figures, the service industries will expand strongly during the coming years, particularly in the areas of hotels and motels, motion pictures, advertising, franchising, and educational and automobile services.

Overall, many economists are being cautiously optimistic about the 80's. Most expect inflation to remain high but growth to continue. A recent survey of 41 forecasters by economic consultant Robert J. Eggert yields an expected average growth of 2.8% for the decade. And Arthur Burns, former chairman of the Federal Reserve Board, was recently quoted as expecting "the world to look a good deal brighter" in 1990 than it does today.

Short-term Outlook

KEDI's outlook for 1980 is not exactly rosy: continued high inflation and a mild downturn followed by sluggish economic growth. The first quarter of 1980 is expected to be the bottom of the decline.

Forecasters have finally ceased quibbling over the meaning of the word "recession" and have finally decided we are indeed in for one, but the issue now is how long it will last and how deep it will be. Differences in expectations are huge.

The Conference Board, a private research organization, has predicted that the slump will be much less dramatic than the recession of 1974-75, with the first half of 1980 at the bottom of the curve and sluggish recovery beginning in the fall. (A view which corresponds roughly to KEDI predictions.)

A survey of top economists recently published in Business Week magazine shows predictions of change in the GNP during the coming year which vary widely. Some forecasters expect the GNP to fall off during the first quarters and grow during the second half of the year. Some expect just the reverse. An average of those figures is as follows: fourth quarter 1979: -1.2%; 1980-1: -3.2%; 1980-2: -2.5%; 1980-3: 0.7%; 1980-4: 2.4%.

Nine major forecasting institutes, including KEDI, also list figures for this same period:

	1979	1980			
	4	1	2	3	4
Chase Econometric Associates	-2.5	-6.1	-1.7	1.1	3.4
Data Resources	-2.3	-4.6	-2.4	1.7	1.9
Georgia State University	-1.1	-4.4	-3.1	-1.3	3.1
KEDI	-0.5	-0.7	0.2	1.0	0.7
Merill Lynch Econ.	-0.6	-6.0	-4.7	-0.4	4.4
University of Michigan	0.0	-0.9	-1.2	-0.4	0.9
Townsend-Greenspan	-1.3	-1.4	-4.7	-2.2	0.6
University of California, Los Ang.	-2.7	-4.9	-2.7	1.4	2.4
Wharton EFA, Univ. of Penn.	-2.4	-2.1	-1.8	0.5	2.8

The short-range outlook in the banking community is also less than encouraging as seen by some forecasters. Interest rates are expected to climb even higher, banks may be choosier about lending, and money supplies in some areas may dry up completely, owing to the Federal Reserve Board's inflation-fighting, credit-tightening measures taken in October of last year. In short, this may not be the year to purchase that new house, or anything else which requires long-term financing.

KEDI expects that the tight monetary policy will ease somewhat during the second half of 1980, corresponding with a more significant increase in economic activity. This will follow the predicted bottoming out of the recession during the frist quarter and slight growth during the second quarter.

In general, KEDI predicts the average output will be slightly below the level of 1979, unemployment will go higher, and inflation will be a little more severe this year.

The KEDI's 1980-1985 outlook is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the November, 1979, forecasts, the changes concern the Assumptions No. 1, 2, 4 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. At the present forecasts, higher price increases of energy items and higher defense orders have been considered.

3. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil.	1399.2	1428.2	1427.7	1703.6
Index of Industrial Production	1967 =100	145.2	151.9	151.5	168.3
Capacity Utilization	%	86.4	86.2	86.4	85.8
Unemployment Rate	%	6.0	5.9	6.4	6.2
Private Housing Starts	mil. units	2.020	1.721	1.526	1.902
Car Sales	mil. units	11.3	10.7	10.1	12.4
Implicit GNP Price Deflator	1972 =100	152.1	165.4	179.7	275.6
Consumer Price Index	1967 =100	195.3	217.7	242.8	377.8
Producer Price Index	1967 =100	209.3	235.9	269.5	401.6
Federal Deficit	bil.$	-27.7	-11.0	-20.1	-24.8
Personal Income	bil.$	1717.4	1917.8	2131.1	3255.8
Prime Rate	%	9.06	12.73	13.29	10.14
Mortgage Rate	%	9.30	10.52	11.38	9.89
Currency plus Demand Deposits	bil.$	352.8	376.2	413.1	649.8
Commercial and Industrial Loans	bil.$	230.9	263.0	277.9	446.8

unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous antiinflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981	1982
West Germany	3.0%	3.1%	3.4%	3.5%
Italy	2.9	3.0	3.0	3.1
Japan	2.9	2.3	2.1	2.3
Great Britain	1.4	1.8	1.9	2.0
France	2.7	2.6	2.6	2.7

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will remain at low levels throughout 1980. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH

(Table 01. on page 24)

Economists generally agree that the coming slowdown will not be deep or long-lasting. KEDI sees the following main factors which will shape the economy during 1980: moderate business capital spending; cautious inventory buildups; booming exports; higher crop yields and retail sales; slightly below normal car sales; not dramatic drop in housing starts; and moderate increases in consumers' spending.

In the area of capital spending, KEDI predicts that real capital outlays will increase 1% as compared to 1979. This will have a moderating effect on the expected economic downturn, a view which is supported by government economists.

The last recession in 1974-75 was preceeded by an investment boom in 1972-73. This is not the case at the present time, however. Business investments in 1978-79 were only moderate.

Businesses will be cautious about inventory levels. Again, compared with the last recession, businesses have kept fairly low inventories. Consequently, excess inventories cannot be a factor driving the economy into recession, as it was during 1974-75.

KEDI forecasts only a mild inventory buildup during the entire year of 1980. Retail inventories will be kept under control, and automakers, although not entirely out of the woods, have already cut inventories to substantially lower levels than during 1974.

Overall increases in manufacturing inventories will be $8 billion to $9 billion, measured in constant 1972 dollars, compared to a buildup of $20 billion in 1975. Most analysts expect that the huge buildups which occurred before the last recession will be avoided. An economist from Dean-Witter Reynolds draws the distinction between by saying that there has been no speculative hoarding of merchandise in anticipation of shortages, as there was for six to eight months before the 1974-75 recession.

The trade picture will also play a part in minimizing the impact of the recession. KEDI forecasts a 7% increase in exports in 1980 compared to 1979, and a slowdown in imports. This strong performance will be a substantial moderating factor.

The forecast is also promising in the areas of crop yields, retail sales, auto sales and housing starts. The KEDI's forecast shows crops of winter and spring wheat will be higher than in 1979 and corn and soybeans will remain at approximately the same high levels. Retail sales are expected to keep increasing throughout the year.

Production of automobiles and housing starts, the traditional signposts of economic recovery, will experience the most significant changes. The projection shows that automobile output will start to recover no earlier than the second half of 1980. However, auto sales will not be affected in the same manner due to the increased sales of imported cars.

KEDI's projection of housing starts is more optimistic than the outlook of the majority of forecasters. KEDI projects starts in 1980 to drop to 1.6 million units, compared to 1.8 million units in 1979. This, again, indicates only a mild recession when compared to the 1975 drop to 1.4 million units.

The forecast of consumer spending presents constant, although small increases in spending on nondurables and services with temporary decline in the durables sector.

Administration policy will have a strong effect on the outcome of the 1980 economy. If the Administration continues the tight monetary and fiscal policies instituted by the Federal Reserve Board, and continues to tighten the federal budget, then the "Washington-made recession" will be prolonged and deeper than anticipated.

Indications are, however, that the fiscal policy will not be so restrictive as expected. Major inflationary federal expenditures will remain basically unaffected in the fiscal 1979-1980 budget, and KEDI expects the start of a gradual decline in interest rates in the second quarter of 1980.

As compared with the previous forecast, this one, presented in this issue, contains higher amounts of defense orders and of defense spending due to the Iran-Mid East crisis, and the corresponding chain effects on industries' outputs and employment.

Recent evidence supports KEDI's forecasts:

Machine-tool orders remain strong, with no indications that metal-producers are cutting back equipment purchases.

Winter-wheat seedings for 1980 total about 9.5% more in acreage than a year earlier, according to the Agriculture Department.

Business inventories grew only about 1% in October, according to the Commerce Department, indicating that the business attitude is one of caution.

Retails sales rose a healthy 1.8% in November, also according to Commerce Department figures.

Early government data on the fourth quarter 1979 GNP show a slight rise of about 1%, where a decline had been expected.

Oil imports dropped to the lowest monthly level in almost two years in November, narrowing the U.S. trade deficit.

Factory orders increased by an adjusted 0.9% in November, compared to a 0.4% decline in October.

The accompanying table (Table 2.0 U.S. Industrial Output 1980 on the following page) shows the KEDI projection of the output of selected U.S. industries in 1980. The projected data indicate that the following industries will experience difficulties, mostly in the first half of the year: furniture and fixtures, primary metals, nonelectrical machinery, rubber, clay, glass, stone, lumber, and textile.

Substantial output increases are expected in the following industries: chemicals, plastics, electrical machinery, machine tools, mining, nonferrous metals, ordnance, and the service industries.

The following Table on page 13 (Table No. 3.0 Gross National Product and Components in Constant $) presents the projected U.S. output in real

Table 2.0 U.S. Industrial Output 1980
(Index of Industrial Production, 1967 = 100)

Industry	1979	1980				1980
	4	1	2	3	4	Year
All Industries	151.4	149.9	150.1	152.6	153.4	151.5
Mining	127.4	129.3	131.0	132.4	134.1	131.7
Foods	147.9	147.0	147.2	147.9	148.2	147.6
Tobacco Products	118.7	118.2	118.4	119.6	120.1	119.1
Textile Mill Products	146.4	145.7	145.1	146.2	146.8	146.0
Apparel Products	131.6	130.1	129.6	130.8	131.6	130.5
Paper and Products	154.2	154.0	154.1	155.2	156.7	155.0
Printing and Publishing	139.2	138.6	139.0	139.4	140.8	139.5
Chemcials and Products	213.6	214.8	215.9	217.0	218.9	216.7
Petroleum Products	141.4	141.2	141.0	141.2	141.3	141.2
Rubber and Plastic Prod.	271.2	270.8	269.8	271.3	273.6	271.4
Leather and Products	70.1	69.5	69.3	69.2	68.9	69.2
Ordnance	76.7	78.4	80.2	82.6	84.7	81.5
Lumber and Products	135.9	133.1	131.0	131.4	131.9	131.9
Furniture and Fixtures	160.4	157.7	157.4	157.8	159.2	158.0
Clay, Glass, Stone Prod.	160.9	159.2	158.3	159.6	160.4	159.3
Primary Metals	115.2	113.1	113.9	114.4	115.3	114.2
Fabricated Metal Prod.	145.6	144.7	144.9	145.7	145.9	145.3
Nonelectr. Machinery	161.3	160.0	160.2	160.9	161.5	160.7
Electrical Machinery	176.7	177.1	177.4	177.9	180.6	178.3
Transportation Equipment	121.2	118.7	122.6	128.6	131.5	125.4
Instruments	174.6	173.8	174.5	175.2	176.0	174.9
Miscellaneous	156.2	157.1	157.9	158.4	159.2	158.2
Utilities	167.8	168.2	168.8	169.6	170.4	169.3

terms. A small decline in real GNP is due mainly to the low performance in the first and second quarters of the year. Third and fourth quarters show the return to a more normal situation. Business investment in structures and durable equipment has steady increases throughout the year, and investment in inventories remains at tolerable level.

Table No. 3.0 Gross National Product and Components

Indicator	Unit	Year 1979	Year 1980				Year 1980
			1	2	3	4	
GNP - Constant $	Bil. 72$ SAAR	1428.2	1415.8	1418.9	1432.7	1443.2	1427.7
Personal Consumption Expenditures	"	920.2	908.7	909.2	917.0	920.7	913.9
Gross Domestic Private Investment	"	216.1	207.5	209.1	213.9	218.3	212.2
Structures	"	47.0	45.3	45.5	46.0	46.7	45.9
Producers Durable Equip.	"	100.9	98.7	98.9	100.6	101.5	99.9
Residential Construction	"	56.5	52.8	53.1	54.2	54.9	53.8
Change in Busines Inventories	"	11.6	10.7	11.6	13.1	15.2	12.8
Exports	"	120.0	124.3	124.2	126.4	128.7	125.9
Imports	"	102.0	101.9	102.1	104.5	105.9	103.6
Net Exports	"	18.0	22.4	22.1	21.9	22.8	22.3
Federal Expenditures	"	98.8	99.1	99.3	99.4	99.6	99.4
State and Local Expenditures		175.1	178.1	179.2	180.5	181.8	179.9

Table No. 4 Capacity Utilization shows the projected utilization rates in major manufacturing divisions. Capacity utilization rate will reach the lowest level in the first quarter this year, and steady improvement will take place since.

Table 4.0 Capacity Utilization

	Unit	1979	1980				1980
		4	1	2	3	4	
Materials	%	86.8	85.3	85.6	86.6	87.9	86.4
Durable Goods	%	85.1	84.1	84.2	85.1	87.2	85.2
Nondurable Goods	%	89.0	86.6	87.0	88.4	89.0	87.8
Energy	%	87.2	87.3	87.6	87.8	87.7	87.6

1.2 PRICES

(Table 02. on page 25)

The KEDI's outlook for prices remains basically unchanged from previous forecasts--inflation will remain high. In the present forecast the consumer price index and producer price index and implicit price deflators have been increased due to routine revisions of recently released price statistics, and due to the change in Assumptions No. 1 and 2. These assumptions concern the oil price increases and the impact of Iran-Middle East crisis.

Analysis of the forecast data shows that the following main factors will contribute to keeping the inflation rate high in 1980:

First, the increasing cost of energy items. The main increases in gasoline, heating oil and other oil products are expected to continue throughout the year, due to increased prices of imported oil and deregulation of prices in the domestic oil industry.

Second, prices of exported and imported commodities will grow faster than domestic prices, pushing the overall U.S. price level upwards. KEDI projection of the rise in export prices for 1980 is 16% and the rise in import prices is 15%, well above the inflation rate of 9% when measured by the GNP price deflator and 12% when measured by the Consumer Price Index.

Third, new wage and salary settlements. The analysis of KEDI forecast data demonstrates that the increase in minimum wage effective January 1, 1980, will contribute approximately a 1% increase in the rate of inflation. The new wage settlements and escalating clauses in existing contracts will contribute 3% and the Social Security escalating clauses will contribute 2% to the inflation rate.

The analysis shows further that the Administration's tight money policy cannot be too effective with regard to the price level. High interest payments contribute to the upwards pressures on prices and do not reduce the demand adequately. (In the last recession in 1974-75, the unemployment rate went up by 61%, but prices increased by 29% during the same period.) Fighting inflation with high interest rates proved not to be too efficient.

A substantial cut in the inflationary price increases by using the tool of monetary and credit policies would require more drastic measures; but the price the country should pay for that, would be too high.

The long-term analysis shows that the effective method of fighting inflation is to increase the productivity of labor. Calculations based on the Kent Model forecast indicate that, if the productivity of labor were to increase by 3.0% annually for the next five years, the inflation rate could recede to 5% by 1985.

1.3 LABOR

(Table 03. on page 26)

KEDI's forecast of the unemployment rate for the fourth quarter of 1979 has been reduced due to the unexpected decline in the November rate. We have also reduced the rate for the first quarter of 1980 from the original 7.2% to 7.1%.

The accompanying table demonstrates the extent to which the selected industries will be affected in 1980 by the expected economic slowdown. Data in the table express the total hours lost by the unemployed and persons on part time for economic reasons as a percent of potentially available labor force hours.

Table 5.0 Unemployment in Industries
(Seasonally adjusted)

			1980				
Industry	1978	1979	1	2	3	4	1980
Construction	10.6	10.2	14.6	13.7	11.2	10.8	12.6
Manufacturing:							
Durables	4.9	5.1	6.1	6.1	5.8	5.5	5.9
Nondurables	6.3	6.7	7.0	6.7	6.0	5.9	6.4
Transp. & Utilities	3.7	3.7	4.4	4.3	4.0	3.9	4.2
Wholes. & Retail	6.9	6.4	6.3	6.3	6.1	6.1	6.2
Finance & Services	5.1	4.9	5.1	5.1	4.9	4.8	5.0
Government	3.9	3.6	3.4	3.4	3.4	3.3	3.4
Agriculture	8.8	9.7	14.7	10.6	8.5	8.6	10.6

1.4 HOUSING
(Table 04. on page 27)

KEDI's forecast of 1.6 million unit starts in 1980 is more optimistic than predictions of other forecasters. The National Association of Home Builders expects a low of 1.1 million to 1.3 million during 1980 or early 1981. Other industry analysts expect 1.2 to 1.3 million starts, down considerably from the 1.7 million total expected for 1979.

Indications are now, however, that analysts are again raising their 1980 forecasts made during a pessimistic overreaction to the Federal Reserve Board's fiscal moves in October.

KEDI's forecast data for housing shows a better picture for apartment houses than for single-family units. The former will drop only 5%, the latter, 15%.

Also, predictions regarding financing home building projects is not so grim as many forecasters would paint it. Our 1980 data show only a moderate decline in mortgage lending.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 28)

The expected Federal budget deficit has been increased by about $1 billion in KEDI's new projection. The projection does anticipate any major tax break, but a small package of investment stimuli for businesses is considered. It has been incorporated into all KEDI's forecasts since 1977.

The battle for the incorporation of a $30 billion to $40 billion tax cut, fought for by the business community, appears to have been lost.

The Administration has definitely decided not to include such a package in the budget proposal that will be sent to Congress late in January.

The projected increase in the Federal deficit is mainly due to the projection of reduced revenue expected this year. Also, the Administration has revised its earlier forecast, and now projects the deficit for the current fiscal year to be $33.2 billion, compared to $27.28 billion deficit in fiscal 1979.

Projections for State and local budgets remain essentially unchanged. Compared to the previous forecast, surpluses of State and local budgets have been slightly decreased due to higher anticipated expenditures. Expenditures will be higher because of the predicted higher inflation rate.

1.6 INCOME

(Table 06. on page 29)

KEDI's projection of the average wage increase in 1980 is 11%, well above the Administration's 1979 wage guideline of 7%. Contrary to the opinions of many forecasters, KEDI expects that profits of major corporations will not be significantly affected by the upcoming economic slowdown. After-tax profits will show a healthy 12% increase.

The productivity of the majority of industries will remain unchanged, as the projection of labor productivity for the year shows no significant increase. Therefore, the major portion of these wage increases will only serve to fuel inflation. In the manufacturing sector, KEDI expects that businesses will absorb approximately 20% of the increases, leaving 80% to be carried by the purchasers, and ultimately, the consumers.

No significant increases or decreases are expected in the area of personal income. Personal income will grow at an annual rate of 11-12%, keeping pace with inflation. The projection of the Disposable Personal Income is slightly different, however. Disposable Personal Income will grow only by 10.7-10.9%, the difference being due to higher income taxes and Social Security taxes.

Per Capita Personal Income, adjusted by the expected inflation, will decline in 1980 by 2.0% when compared to 1979.

1.7 MONEY AND CREDIT

(Table 07. on page 30)

The only significant change here is in the area of consumer credit. The forecast of the total of consumer credit in 1980 has been raised by approximately $3 billion, due to the predicted increase in the inflation rate. Higher prices will push people more into debt.

Projections regarding the monetary aggregates and the stock market remain essentially unchanged compared to the previous forecast.

Indications are that the Federal Reserve moves did not turn out to be as tough as expected. Recently released data show that the demand for bank loans is increasing at a healthy pace and the money supply is growing steadily.

Although recent developments in the money and credit markets indicate some easing, resulting in some lowered interest rates, KEDI maintains its position that the first signs of relief in the Fed's tight monetary and credit policies will appear no earlier than the second quarter of this year.

This corresponds with the stand of Paul Volcker, chairman of the Federal Reserve Board. Volcker maintains that interest rates can fluctuate in response to credit demands and economic conditions without any basic change in the monetary policy, which is directed toward reducing the growth of money and credit.

Volcker continues to emphasize that the Fed is determined to maintain its anti-inflation policies.

1.8 INTEREST RATES AND YIELDS

(Table 08. on page 31)

Projections of interest rates, yields and stock market prices remain essentially unchanged from the previous forecast.

The projection shows drops in interest rates during the second half of 1980. However, the declines will not be dramatic. We anticipate that high interest rates will remain among the main tools the Federal Reserve Board will use to protect the international value of the dollar.

The projection of stock market prices presents a mixed picture. Although the general trend is for no dramatic changes on the market, a more detailed view pictures varying performances by industrial stocks.

The prediction is for good performance by stocks of the oil, nonferrous metals, chemicals, plastics, electrical machinery, semiconductors, computers, utilities and service industries.

Weaker performances are projected for stocks in the paper, textile, appliances, trade, stone and glass, food and related products, leather and shoes, and rubber industries.

Table 6.0 GROSS NATIONAL PRODUCT AND COMPONENTS

(billions curr. dollars,seas. adj. at annual rates)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	2427.3	2455.0	2522.8	2607.5	2678.6	2566.0
Personal Cons. Expend.	1543.7	1588.8	1603.9	1655.3	1707.0	1631.2
Durables	213.3	210.3	212.3	220.4	226.2	217.3
Nondurables	601.1	598.6	613.3	631.2	645.9	622.4
Services	729.3	749.9	778.4	803.7	834.9	791.5
Gross Private Dom. Inv.	392.6	393.1	404.3	419.2	429.0	411.5
Structures	93.3	91.6	93.0	95.5	98.5	94.7
Dur. Equipment	168.1	168.6	172.2	178.3	183.0	175.5
Residential Struct.	115.8	112.5	114.6	118.3	122.2	117.0
Inventories Change	15.4	20.4	24.5	27.1	25.3	24.3
Exports	283.3	296.2	307.0	325.1	339.0	316.8
Imports	284.3	294.7	307.1	322.8	338.5	315.8
Net Exports	-1.0	1.5	-.1	2.3	.5	1.0
Federal Purchases	166.9	171.5	175.5	180.9	185.1	178.3
State and Loc. Purch.	325.3	330.1	339.2	349.8	357.0	344.0

Table 7.0 GROSS NATIONAL PRODUCT AND COMPONENTS

(bil.const. 72$, seas. adj. at annual rates)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	1426.2	1415.8	1418.9	1432.7	1443.2	1427.7
Personal Cons. Expend.	918.4	908.7	909.2	917.0	920.7	913.9
Durables	145.6	141.5	140.7	142.5	143.8	142.1
Nondurables	339.4	332.0	331.7	332.9	332.6	332.3
Services	433.4	435.2	436.8	441.6	444.3	439.5
Gross Private Dom. Inv.	211.1	207.5	209.1	213.9	218.3	212.2
Structures	46.9	45.3	45.5	46.0	46.7	45.9
Dur. Equipment	101.0	98.7	98.9	100.6	101.5	99.9
Resid. Structures	55.1	52.8	53.1	54.2	54.9	53.8
Inventories Change	8.1	10.7	11.6	13.1	15.2	12.8
Exports	124.6	124.3	124.2	126.4	128.7	125.9
Imports	102.8	101.9	102.1	104.5	105.9	103.6
Net Exports	21.8	22.4	22.1	21.9	22.8	22.3
Federal Purchases	98.0	99.1	99.3	99.4	99.6	99.4
State and Loc. Purchases	176.9	178.1	179.2	180.5	181.8	179.9

Table 8.0 IMPLICIT PRICE DEFLATORS

(Index Numbers, 1972 = 100)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	170.2	173.4	177.8	182.0	185.6	179.7
Personal Cons. Expend.	168.1	171.5	176.4	180.5	185.4	178.5
Structures	198.9	202.1	204.5	207.6	210.9	206.2
Dur. Equipment	166.4	170.8	174.1	177.2	180.3	175.6
Residential Structures	210.1	213.1	215.9	218.4	222.6	217.5
Exports	227.4	238.3	247.2	257.2	263.4	251.5
Imports	276.6	289.2	300.8	308.9	319.6	304.6
Federal Purchases	170.3	173.1	176.7	182.0	185.8	179.4
State and Loc. Purchase	183.9	185.4	189.3	193.8	196.4	191.2

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1426.2	1428.2
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	151.4	151.9
Unemployment Rate	%	6.0	5.8	5.7	5.8	6.1	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	86.8	86.2
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.606	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1428.2	1415.8	1418.9	1432.7	1443.2	1427.7
Index of Indust. Production	1967=100	151.9	149.9	150.1	152.6	153.4	151.5
Unemployment Rate	%	5.9	7.1	7.0	6.6	6.8	6.9
Capacity Utilization Rate	%	86.2	85.3	85.6	86.6	87.9	86.4
Private Housing Starts	mil. units	1.728	1.414	1.508	1.604	1.574	1.526
Car sales	mil. units	10.7	9.4	9.3	10.6	10.7	10.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1427.7	1450.2	1463.5	1473.7	1488.4	1469.0
Index of Indust. Production	1967=100	151.5	153.6	154.3	155.5	156.1	154.9
Unemployment Rate	%	6.9	6.2	6.5	6.4	6.2	6.3
Capacity Utilization Rate	%	86.4	88.1	88.2	87.9	88.4	88.2
Private Housing Starts	mil. units	1.526	1.536	1.692	1.788	1.807	1.708
Car sales	mil. units	10.1	10.4	11.2	11.3	11.7	11.2

*Historical data

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	228.6	217.7
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	245.9	235.9
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.2	165.4
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2427.3	2361.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1543.7	1500.6
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	392.6	388.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.7	234.7	240.3	245.8	250.3	242.8
Producer Price Index, NSA	1967=100	235.9	256.3	265.8	273.5	282.4	269.5
Implicit GNP Price Deflator	1972=100	165.5	173.4	177.8	182.0	185.6	179.7
Gross National Product	bil.$	2361.5	2455.0	2522.8	2607.5	2678.6	2566.0
Personal Cons. Expenditures	bil.$	1500.6	1558.8	1603.9	1655.3	1707.0	1631.2
Gross Private Dom. Investment	bil.$	388.5	393.1	404.3	419.2	429.0	411.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	242.8	259.7	264.4	270.3	276.8	267.8
Producer Price Index, NSA	1967=100	269.5	286.1	291.3	297.2	302.6	294.3
Implicit GNP Price Deflator	1972=100	179.3	187.9	191.2	197.0	201.6	194.4
Gross National Product	bil.$	2566.0	2724.9	2798.2	2903.2	3000.6	2856.7
Personal Cons. Expenditures	bil.$	1631.2	1726.5	1759.5	1831.2	1895.4	1803.2
Gross Private Dom. Investment	bil.$	411.5	443.3	456.5	479.8	500.5	470.0

*Historical data

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.8	103.1
Employed	mil.	94.4	96.5	97.0	97.2	97.5	97.1
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.2	93.8
Unemployment Rate	%	6.0	5.77	5.73	5.81	6.09	5.85

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.1	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.1	96.8	97.5	98.6	99.2	98.0
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.8	93.5	94.1	95.2	95.9	94.6
Unemployment Rate	%	5.85	7.10	6.95	6.60	6.75	6.85

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	97.9	100.4	100.9	101.8	102.6	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.5	97.3	97.6	98.4	99.3	98.2
Unemployment Rate	%	6.95	9.26	6.53	6.39	6.20	6.35

*Historical data

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.085	1.176
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.521	.545
Mobile Homes Shipments	thous units	276	284	276	260	226	262
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.003	1.304
Construction Costs-Commerc.	1972= 100	164.3	172.7	177.6	185.7	196.2	183.1
Construction Costs-Resident.	1972= 100	161.8	171.8	175.5	182.3	192.3	180.1

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.176	.927	.991	1.075	1.013	1.002
Multifamily Housing Starts	mil. units	.545	.487	.517	.529	.561	.524
Mobile Homes Shipments	thous units	262	190	224	236	240	222
Housing Permits Issued	mil. units	1.304	.970	.981	1.004	.994	.987
Construction Costs-Commerc.	1972= 100	183.1	198.7	203.8	213.1	218.6	208.6
Construction Costs-Resident.	1972= 100	180.1	195.1	202.5	210.4	214.8	205.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.002	.995	1.120	1.187	1.179	1.122
Multifamily Housing Starts	mil. units	.524	.541	.572	.601	.628	.586
Mobile Homes Shipments	thous units	222	246	262	273	289	268
Housing Permits Issued	mil. units	.987	.965	1.027	1.105	1.197	1.074
Construction Costs-Commerc.	1972= 100	208.6	222.1	226.5	230.9	241.2	230.2
Construction Costs-Resident.	1972= 100	205.7	218.1	221.6	224.8	228.6	223.3

*Historical data

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	235.9	223.4
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	81.3	78.2
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.1	-11.0
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.8	40.9
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.6	14.3
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	21.9	23.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	239.8	243.4	250.9	253.4	246.9
Corporate Profit Tax Accruals	bil.$	78.2	80.2	82.5	87.0	89.3	84.8
Surpl./Deficit	bil.$	-11.0	-18.1	-20.5	-22.4	-21.2	-20.1
State and Local Governments:							
Income Taxes	bil.$	42.9	40.1	42.6	44.7	48.3	43.9
Corporate Profit Tax Accruals	bil.$	14.3	14.6	15.0	16.7	17.4	15.9
Surpl./Deficit	bil.$	23.6	19.5	19.4	19.2	18.0	19.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	260.5	264.3	270.5	274.6	267.5
Corporate Profit Tax Accruals	bil.$	84.8	95.6	98.3	102.4	108.7	101.3
Surpl./Deficit	bil.$	-20.1	-22.8	-24.7	-23.2	-20.6	-22.8
State and Local Governments:							
Income Taxes	bil.$	43.9	49.3	54.8	57.1	58.6	54.6
Corporate Profit Tax Accruals	bil.$	15.9	19.2	20.7	22.5	23.9	21.6
Surpl./Deficit	bil.$	19.0	18.8	20.6	22.8	24.1	21.6

*Historical data

TABLE 06. INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	1979.1	1917.8
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1655.1	1617.3
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1483.6	1452.1
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	145.2	143.7
Personal Saving	bil.$	72.0	79.2	85.9	70.3	69.1	76.1
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	221.4	218.3
Indicator	**Unit**	**1979**	**1980**				**1980**
			1	2	3	4	
Personal Income	bil.$	1917.8	2054.0	2111.1	2179.2	2250.0	2131.1
Personal Dispos. Income	bil.$	1617.3	1670.5	1718.6	1777.0	1836.0	1750.5
Compensation of Employees	bil.$	1452.1	1504.1	1598.7	1692.3	1760.8	1639.0
Corp. Profits After Tax	bil.$	143.7	145.6	149.7	166.8	173.7	159.0
Personal Saving	bil.$	76.1	68.4	70.3	75.6	80.7	73.8
Average Weekly Earnings	$	218.3	222.6	225.4	230.2	231.3	227.4
Indicator	**Unit**	**1980**	**1981**				**1981**
			1	2	3	4	
Personal Income	bil.$	2131.1	2253.5	2298.4	2386.4	2465.9	2426.1
Personal Dispos. Income	bil.$	1750.5	1857.8	1896.3	1973.6	2043.4	1942.8
Compensation of Employees	bil.$	1639.0	1796.7	1846.3	1950.2	1990.4	1895.9
Corp. Profits After Tax	bil.$	159.0	177.8	184.3	189.8	191.8	185.9
Personal Saving	bil.$	87.8	81.2	85.4	89.6	93.2	87.4
Average Weekly Earnings	$	227.4	237.1	240.2	242.3	250.6	242.6

*Historical data

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.2	376.2
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	659.0	639.1
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.4	298.4
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	263.0	263.0
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	114.1	114.1
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	452.0	452.0

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.2	401.1	410.4	418.6	422.3	413.1
Time Deposits, Adjusted	bil.$	639.1	667.9	680.4	696.2	717.3	690.5
Consumer Instal. Credit	bil.$	298.4	303.2	308.2	314.5	319.8	319.8
Commerc.and Ind. Loans at Banks	bil.$	263.0	266.1	268.0	270.5	277.9	277.9
Negotiable Cert.of Deposits	bil.$	114.1	119.3	125.0	129.0	129.6	129.6
Mortgages at S&L Assns.	bil.$	452.0	451.9	459.3	463.0	478.1	478.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Depos ts	bil.$	413.1	430.6	437.2	450.9	463.2	445.5
Time Deposits, Adjusted	bil.$	690.5	728.4	746.5	760.3	781.6	754.2
Consumer Instal. Credit	bil.$	319.8	326.8	335.4	343.7	355.6	355.6
Commerc.and Ind. Loans at Banks	bil.$	277.9	283.4	297.8	314.5	325.6	325.6
Negotiable Cert.of Deposits	bil.$	129.6	132.0	136.7	142.1	152.6	152.6
Mortgages at S&L Assn.	bil.$	478.1	481.9	495.8	504.2	514.8	514.8

*Historical data

KENT ECONOMIC AND
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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.97	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.26	12.77
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.89	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.08	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.53	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	101.54	103.85	101.23

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	12.30	11.20	10.95	10.62	11.27
Prime Rate	%	12.77	14.88	13.86	12.80	11.60	13.29
Mortgage Rate, New Homes	%	10.44	11.82	11.43	11.28	10.97	11.38
Aaa Bonds Rate	%	9.66	10.30	10.02	9.97	9.86	10.04
Long Term Govt. Bonds Yield	%	9.52	10.50	10.43	10.20	9.96	10.27
Standard & Poor's 500 Average	1941-43=100	101.23	101.10	99.86	102.54	103.17	101.67

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.27	10.19	9.96	9.80	9.50	9.86
Prime Rate	%	13.29	11.15	10.11	9.83	9.57	10.17
Mortgage Rate, New Homes	%	11.38	10.50	10.31	10.06	9.94	10.20
Aaa Bonds Rate	%	10.04	9.61	9.52	9.39	9.56	9.52
Long Term Govt. Bonds Yield	%	10.27	9.71	9.56	9.48	9.43	9.56
Standard & Poor's 500 Average	1941-43=100	101.67	103.14	105.38	107.52	108.21	106.01

*Historical data

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recd 7/14/80

KEDI ECONOMIC SURVEY

JANUARY ISSUE

January 31, 1980

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

Vol. 5, No. 8, January 31, 1980

KEDI ECONOMIC SURVEY

JANUARY ISSUE

January 31, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 018000444
KEDI January 31, 1980

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New assumptions concern Mid-East crisis, grain and technology embargo and changes in attitude of businesses.

DETAILED FORECASTS

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

This Institute has revised its forecast in this issue. Whereas a very mild recession or possibly none was the likely conclusion in December last year, now it can be more definitely stated that 1980 will not bring us such economic conditions; there will not be a recession. There will be slow growth at an annual pace of approximately 1.0 percent.

Miscalculations need to be admitted. KEDI was off the mark on estimates for the fourth quarter. However, to give credit where it is due, the forecast here was closer to what did develop than other economists. Most of them expected quite a downturn, but here only a slight reversal was painted in the fourth quarter horizon. What did happen? People spent more and saved less. Considering inflation, such a statement shouldn't be surprising. Who can save these days -- or save as much as they would like?

Personal savings were accumulating above the $70 - 80 billion annual rate throughout most of 1979. In the last quarter of the last year of the seventies, this rate dropped to only $50 billion. It has been over a decade since personal savings were at such a rate back in the late sixties. This fourth quarter shift to more spending was not anticipated.

Secondly, the forecast by KEDI is revised due to the events of January concerning Iran and Afghanistan. In last month's issue, military orders for the early 1980's were put at $10 billion annually. That amount is revised here to $15 billion, and during each of the next few years, another $5 billion will likely be added.

The change in spending behavior by both the military and the ordinary struggling citizen adds up to two more points added to the price index predicted in the December issue. It means there will be slow growth rather than any mild recession.

This view is in sharp contrast to that of the Administration. The Council of Economic Advisors predicts a mild and brief recession. The Wall Street Journal reports that Mr. Carter expects unemployment to average about 7.0 percent during 1980. This Institute predicts the rate to be a much lower 6.1. Arthur Okum, Chief White House economist during the Johnson years, predicts that the recession will start this quarter. KEDI does not agree.

The Congressional Budget Office expects a mild recession this year. KEDI does not agree.

President Carter's Administration estimates the consumer price index will rise by 11.8 percent. KEDI does not agree.

It would be ever so lovely (as the English often say) to be able to say that this Institute's figure is lower. Realism forces otherwise. Inflation will be in the 13 percent range. Other economists agree with this latter figure. Indications are that more of them are shedding their cloaks of gloom at last and beginning to think in terms of some growth rather than recession. The reader is referred to Forecast Highlights on the following page, Table 1.0.

Long-term Outlook

Despite the pleasant surprise of the lack of a downturn in the fourth quarter, and the unpleasant developments in Iran and Afganistan, the

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.2	1444.4	1741.5
Index of Industrial Production	1967 =100	145.2	152.1	153.5	172.8
Capacity Utilization	%	84.3	86.2	86.8	86.3
Unemployment Rate	%	6.0	5.9	6.3	6.1
Private Housing Starts	mil. units	2.020	1.721	1.577	1.914
Car Sales	mil. units	11.3	10.7	10.2	12.8
Implicit GNP Price Deflator	1972 =100	152.1	165.5	182.2	284.3
Consumer Price Index	1967 =100	195.3	217.4	246.2	396.4
Producer Price Index	1967 =100	209.3	236.1	269.2	408.7
Federal Deficit	bil.$	-27.7	-10.3	-22.0	-20.1
Personal Income	bil.$	1717.4	1923.0	2130.2	3298.6
Prime Rate	%	9.06	12.76	13.82	10.11
Mortgage Rate	%	9.30	10.52	11.48	9.81
Currency plus Demand Deposits	bil.$	352.8	376.1	416.0	667.3
Commercial and Industrial Loans	bil.$	230.9	264.6	283.1	467.5

long-term outlook outlined in the December issue, remains the same: the 1980's will give us some growth but not at the rate that existed during the seventies. On the average, KEDI expects the economy in this country will grow at a 1.8 - 1.9 percent rate during the decade. (In the 1970's, the average was about 2.0 percent.) There will be two distinct cycles with peak growth in 1984 and 1989. There will be a steel shortage in the middle of the decade and energy supply problems throughout it. Inflation will bob up and down with periods of price rises in excess of 10 percent and years such as 1982 and 1988 where the rate will likely be in the "lower" 8 or 9 percent range.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the December, 1979, forecasts, the changes concern the Assumptions No. 2, 6 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the previous forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980

it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981	1982
West Germany	3.0%	3.1%	3.4%	3.5%
Italy	2.9	3.0	3.0	3.1
Japan	2.9	2.3	2.1	2.3
Great Britain	1.4	1.8	1.9	2.0
France	2.7	2.6	2.6	2.7

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will keep increasing throughout 1980. In the previous forecast, a lower level of confidence of businesses and consumers had been expected. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH
(Table 01. on page 9)

KEDI and all other major forecasters were in error in the estimates of the fourth quarter of 1979. As was discussed in the first section, the predicted decline did not occur. Looking on the bright side, the decline foreseen here in issues of the last months of 1979, was only a small one, as compared to most forecasters. Part of the outlook that had been seen by this Institute was based on an assumption of low auto sales. However, they were not as low in December as had been expected here. Overall, KEDI had been saying that if there was to be a recession, it would be mild. Now, there is no recession to predict. Slow growth is in the near future and recent data highlights this.

The economy performed extremely well in the fourth quarter of 1979. Preliminary data show that there was a 2 - 3 percent rate of annual growth, seasonally adjusted. Retail sales in January, 1980, were strong. Early data shows that shoppers and their money were soon parted in the bargain filled stores making both the value-conscious consumer and the store owners happy.

Orders for durable goods went up a bit in December by 0.6 percent on a seasonally adjusted basis. The backlog of orders rose by 1.3 percent. Along with this, new factory orders gained by 1.3 percent also with gains in orders for aircraft, fabricated-metal products and machinery and declines for steel producers, auto, railroad, and equipment manufacturers. Ms. Slater, the Commerce Department's chief economist acknowledged the improvement, but still was predicting a mild recession. Such views remind KEDI staffers of the saying, "There are none so blind as those that will not see."

Industrial production managed to move up a bit in December by 0.3 percent, seasonally adjusted. Although it was the smallest gain since 1974, it was a gain. Data recently released also show small increases in November for both new orders by manufacturers and unfilled orders.

The index of leading economic indicators did not change in December. It remained at the same level it had reached in November: 136.8 percent of the 1967 average. So, it did not provide a basis for at least two months of decline which is often seen as a sure sign of a recession.

The value of construction contracts rose in December providing a bright bit of news. Such contracts went up by 6 percent. The five month decline that preceeded December was brought to an end.

The Commerce Department reported that businesses plan to spend about 1 - 2 percent more on new plant and equipment this year than in 1979, after adjustment for inflation. Larger than average increases are expected in the aircraft, electrical machinery, paper, and petroleum industries.

The only relatively negative note comes from recent data on auto sales. But even this decline was smaller than expected. In early January sales were down by 5.3 percent from the year-earlier comparable period. The December developments as mentioned so far, indicate that the economy has performed well and do not indicate a start of a downturn or a recession.

1.2 PRICES AND NOMINAL GNP
(Table 02. on page 12)

Prices in this forecast have been revised upward as compared with prior KEDI predictions due to the following factors: first, the higher than expected gains in the December, 1979, Consumer Price Index, the Producer's Index, and the Implicit GNP Price Deflator, and secondly, because of the changes in Assumptions Number 2, 6 and 7. That is, they reflect the impact of the rise in defense orders and attitude of businesses.

As to prices, in December, producer prices for finished goods increased by 0.8 percent, seasonally adjusted. For the year, 1979, these prices rose an unadjusted 12.5 percent which was the sharpest gain since 1974.

Producer food prices in December moved down just a bit by an adjusted 0.1 percent from the November level. However, the December level was up 20.6 percent from the year-earlier figure. Energy prices were up by 2.4 percent in December from the prior month. Gasoline prices gained an adjusted 3.4 percent. Over the whole year, as the reader well knows while groaning at the gas pumps, gasoline prices leaped by 61 percent. Home-heating oil prices jumped by just over 70 percent during 1979.

Producers prices for intermediate goods were up an adjusted 1.2 percent in December from the November level. During the year these prices gained

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1438.4	1431.2
Index of Indust. Production	1967= 100	145.2	152.2	151.9	152.2	152.1	152.1
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	86.7	86.2
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.2	1436.4	1438.7	1446.7	1454.3	1444.4
Index of Indust. Production	1967= 100	152.1	151.6	152.6	154.1	155.8	153.5
Unemployment Rate	%	5.9	6.3	6.3	6.2	6.4	6.3
Capacity Utilization Rate	%	86.2	86.4	86.1	86.8	87.8	86.8
Private Housing Starts	mil. units	1.728	1.412	1.575	1.658	1.661	1.577
Car sales	mil. units	10.7	9.5	9.8	10.5	10.9	10.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1444.4	1460.1	1476.8	1489.8	1501.6	1482.8
Index of Indust. Production	1967= 100	153.5	156.1	156.9	158.3	159.9	157.8
Unemployment Rate	%	6.3	6.5	6.2	6.2	6.1	6.2
Capacity Utilization Rate	%	86.8	88.2	88.4	88.0	88.9	88.4
Private Housing Starts	mil. units	1.577	1.581	1.744	1.835	1.858	1.755
Car sales	mil. units	10.2	10.5	11.3	11.5	11.6	11.2

*Historical data

by 15.9 percent. Crude prices moved up by 17.5 percent in 1979.

The ban on sales of grain to the Soviet Union will not have much effect on meat prices, according to livestock economists. The meat supply just isn't that responsive as quantities are pretty well fixed, and female animals already are pregnant with calves and pigs. Currently there is not an excess of beef cattle to place on feed lots and fatten with grain. As it takes years to increase beef output and the number of cattle is on the upswing of the cattle cycle now, it won't be until the mid-1980's that the consumer will get a "bargain," and some cattle ranchers suffer real losses. Then the upward cycle will resume.

Grain prices will not drop, in part, due to Carter's steps to lessen the impact on farmers of the Soviet embargo by such measures as raising federal storage subsidies. The Soviets were preparing to buy grain from Argentina and it is likely they will pay premium prices. Reports of hot and dry weather there add to the push to generally higher prices. Real and rumored buying by the Soviets have contributed to rising prices of rubber and lead also. No drop in prices for agricultural products is foreseen.

All prices will increase in 1980. Sugar production, for example, is down world wide and prices will be going up despite the International Sugar Organizations increasing by 10 percent the amount of sugar that producer members can export. World prices nearly doubled during 1979.

KEDI expects further substantial increases in the prices of products for defense goods, products for aircrafts and parts, machine tools, mining machinery, and nonferrous metals such as copper, zinc and lead.

In Janaury, for example, copper rose to nearly the record price set in 1974. The price leaps for gold and silver are well known. Speculators are looking to metals such as copper. Prices then become not only a product of supply and demand but also a reflection of international currency problems.

In December, consumer prices went up by a seasonally adjusted rate of 1.2 percent. The overall rise for the year was 13.3 percent -- the steepest rise since 1946. As was mentioned in the first section of this issue, the KEDI forecast is for a similar rise during 1980 as opposed to the governments lower estimate of 10 percent.

All of these aforementioned items contribute to the prediction that prices will rise by 13 percent in 1980. An important factor here is the relationship between crude, intermediate, and finished product prices. As was mentioned in the first paragraphs of this section, it can be seen that crude prices went up at a faster rate than intermediate prices, and they went up at a faster pace than finished product prices. This presents the basis for larger price gains in 1980 in particular.

1.3 LABOR

(Table 03. on page 14)

The employment situation has been and will be not too gloomy. The current forecast by this Institute for unemployment is revised slightly downward. Compared to other forecasters, this is an optimistic view. For example, the unemployment rate here has been reduced by an average of .10 percent for 1980, .15 for 1981 and .18 for 1982. This provides the following new projection data for the rate of unemployment: 1980, 6.1%; 1981, 6.2%;

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.4	217.4
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	246.7	236.1
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2306.5	2455.8	2368.6
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1580.4	1509.8
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	383.3	386.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.4	236.8	243.8	249.0	255.2	246.2
Producer Price Index, NSA	1967=100	236.1	256.1	265.4	273.1	282.0	269.2
Implicit GNP Price Deflator	1972=100	165.5	175.0	179.9	184.8	189.2	182.2
Gross National Product	bil.$	2368.6	2513.7	2588.2	2673.5	2751.5	2631.7
Personal Cons. Expenditures	bil.$	1509.8	1592.4	1635.6	1688.1	1740.5	1664.2
Gross Private Dom. Investment	bil.$	386.2	385.1	402.4	419.6	432.7	410.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.2	260.3	267.5	275.3	284.6	271.9
Producer Price Index, NSA	1967=100	269.2	286.8	292.4	298.5	304.1	295.5
Implicit GNP Price Deflator	1972=100	182.2	189.8	193.9	198.8	204.6	197.0
Gross National Product	bil.$	2631.7	2771.3	2863.5	2976.6	3072.3	2920.9
Personal Cons. Expenditures	bil.$	1664.2	1775.4	1807.3	1882.6	1947.1	1853.4
Gross Private Dom. Investment	bil.$	410.0	444.2	457.6	480.7	501.3	470.1

*Historical data

1982, 6%. This revision reflects the changes made in Assumptions No. 2, 6 and 9.

In contrast to others, these figures are relatively low. For instance, the Administration has been projecting unemployment at an average of 7.5 percent for 1980 and average about 7.3 percent in 1981.

The Congressional Budget Office is even more pessimistic. They estimate unemployment at 7.8 percent for 1980 and say it may go above 8 percent by the end of 1981.

Actual data for December, 1979, give virtually no indication that would show any serious slowdown coming. First of all, December unemployment was at a seasonally adjusted rate of 5.9 percent - up just .1 percent from the November level. A Labor Department official stated that there was no clear evidence of a downturn. Such a view is wholeheartedly agreed with here.

In December, total employment moved up a bit by 0.3 percent to an adjusted 97.9 million. The number unemployed rose 0.7 percent to an adjusted 6.1 million. The average workweek for nonfarm workers remained the same in December as it was in November: 35.7 hours. However, for factory workers, there was an increase in the last month of 1979 to 40.3 hours from November's 40.1 average workweek. That, again, does not indicate any serious downturn in sight.

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.6	98.2	99.0	99.6	98.7
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.3	94.8	95.6	96.3	95.3
Unemployment Rate	%	5.80	6.31	6.28	6.21	6.39	6.30

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.7	100.2	101.3	102.0	102.7	101.6
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	95.3	96.9	98.0	98.6	99.4	98.3
Unemployment Rate	%	6.30	6.48	6.21	6.17	6.10	6.24

*Historical data

4.0 HOUSING
(Table 04. on page 17)

As compared with the other forecasters, the KEDI projection of housing starts for this year (published in January, 1979) has been optimistic. KEDI projected that housing starts for 1980 would amount to be 1.771 million units. Except for insignificant changes, that forecast remained throughout the year, 1979. Actual number of housing units starts in 1979 is 1721.

In October, 1979, the forecasters overreacted to Federal Reserve monetary actions. Some forecasters had been estimating housing starts at roughly 1.1 - 1.3 million units in 1980. The KEDI 1980 projection remained unchanged at that time.

Now, forecasters are again raising their projections. There are two basic reasons for their change: First, a surprise in the continued strength of housing starts was shown in December, 1979 data. Second, the indications are that are adjusting to the higher rates -- builders and buyers alike. Many realize that there isn't a big recession likely to cave their roof in nor is it likely that bargain interest rates reappear. The Secretary of the Department of Housing and Urban Development was quoted in The Wall Street Journal as saying he didn't think crisis was the appropriate word to describe housing currently. Last month he had asked Congress to take a new look at a mortgage subsidy plan for emergency use.

In regard to house prices, there are indications of some decline in November and December. Data for November indicate a $700 drop in the price average of an existing home. Any drop is seen as a temporary phenomenon by KEDI. However, taking the long view, shows that the median price of such a house went up by 185% between 1968 and October, 1979. The forecast by this Institute is unchanged in that house prices are seen continuously climbing but at a slower rate in 1980. In 1981 and the following years the faster pace will resume.

5.0 FEDERAL AND STATE AND LOCAL BUDGETS

(Table 05. on page 19)

The Federal Budget, recently presented by President Carter is built on these assumptions: mild recession in the first half of the year, raising unemployment, and double digit inflation. KEDI's projection is based on these assumptions: no recession in 1980 at all, unemployment at approximately the same level throughout the year, and double digit inflation of 13.4% as opposed to the Administration's 11.8% rate.

This Institute's projection shows a larger deficit than the Administration's proposal: 20 billion as compared to the Administration's 16 billion. The basis for KEDI's more pessimistic view is in the expectations concerning defense expenditures, social security and welfare payments, and tax receipts.

First, it is anticipated here that actual defense spending in fiscal 1980/81 will be $154 billion compared with the Administration's $145. There is a lot of lag, too much, in bureaucratic response to changes in the economic and political atmosphere. The budget was drawn up, for the most part, before the Iran and Afghanistan events. These events contribute to Congressional desire for more defense spending in an

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	276	269	285	279
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.083	1.324
Construction Costs-Commerc.	1972= 100	164.3	172.7	177.6	185.7	196.1	183.0
Construction Costs-Resident.	1972= 100	161.8	171.8	175.5	182.3	192.5	180.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.920	1.052	1.106	1.074	1.038
Multifamily Housing Starts	mil. units	.551	.492	.523	.552	.587	.539
Mobile Homes Shipments	thous units	279	263	278	298	281	280
Housing Permits Issued	mil. units	1.324	.982	.997	1.026	1.089	1.024
Construction Costs-Commerc.	1972= 100	183.1	198.7	203.9	213.4	219.0	208.8
Construction Costs-Resident.	1972= 100	180.5	195.0	202.1	209.9	214.0	205.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.038	.995	1.148	1.211	1.205	1.139
Multifamily Housing Starts	mil. units	.539	.590	.596	.624	.653	.616
Mobile Homes Shipments	thous units	280	263	296	315	324	300
Housing Permits Issued	mil. units	1.024	1.124	1.198	1.258	1.298	1.220
Construction Costs-Commerc.	1972= 100	208.8	223.0	227.1	231.8	242.8	231.2
Construction Costs-Resident.	1972= 100	205.3	217.9	221.1	224.2	227.9	222.8

*Historical data

economy that is showing more strength than Carter experts anticipated. Hence, officials are finally beginning to consider that inflation will be above the Carter Budget estimate presented in late January.

Secondly, it is projected here that Social Security and Welfare payments will be approximately $11 billion higher than what the Administration proposes. This is due to the higher rate of inflation expected by KEDI as compared to the Administration.

Thirdly, this Institute expects that Federal Income Tax Receipts and Corporate Income Tax receipts will be higher by $4 billion and $12 billion, respectively, than the figures projected by the Administration. This is due mainly to employment holding up better than expected and to inflation increased incomes pushing some people into higher tax brackets.

Considering also the other minor differences between the Administration's budget proposal and the projection here, the result is that since the December issue, KEDI has increased its projection of the government deficit by $4 billion to $20 billion.

The forecast for State and Local Governments has been revised upward. The new forecast data show roughly a $1.0 billion increase in the surpluses of State and Local Budgets.

1.6 INCOME
(Table 06. on page 22)

The forecast data for income and components have been raised since the last issue. For the years 1980-85 the forecast of Personal Income has been increased due to changes in Assumptions 2, 6, and 9.

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-11.1	-10.3
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	41.3	41.0
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.9	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	21.7	23.6
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	249.6	254.7	261.3	265.8	257.9
Corporate Profit Tax Accruals	bil.$	78.2	82.3	87.8	92.1	93.6	88.9
Surpl./Deficit	bil.$	-11.0	-17.8	-19.6	-24.6	-25.8	-22.0
State and Local Governments:							
Income Taxes	bil.$	42.9	42.1	43.3	46.8	49.7	45.5
Corporate Profit Tax Accruals	bil.$	14.3	14.9	15.8	18.0	19.1	17.0
Surpl./Deficit	bil.$	23.6	19.9	20.6	21.0	21.3	20.7
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	272.6	279.8	283.1	290.5	281.5
Corporate Profit Tax Accruals	bil.$	84.8	98.9	106.8	114.7	123.9	111.1
Surpl./Deficit	bil.$	-20.1	-24.6	-26.8	-26.3	-25.2	-25.7
State and Local Governments:							
Income Taxes	bil.$	43.9	51.2	56.9	59.8	61.3	57.3
Corporate Profit Tax Accruals	bil.$	15.9	21.3	23.8	25.6	26.4	24.3
Surpl./Deficit	bil.$	19.0	22.4	24.7	26.9	28.7	25.7

*Historical data

The number of employed persons have been increased somewhat, and the same is true for the average hourly compensation rates. President Carter's pay advisory committee anticipates that wage gains will be in the recommended range of 7.5 to 9.5 percent and hope that most will be clustered around the middle at about 8.5 percent. KEDI considers that this is not realistic. Even the chairman of that committee acknowledged that some settlements will be above that range. It is not felt here that they will average out to anywhere near 8.5.

The outlook for wages in 1980 and 1981 is not bright when inflation is considered. This Institute expects that the wage gains will average 11 percent in 1980 and 11.5 in 1981. When considering the projected Consumer Price increases of 13.4 and 13.2 percent, respectively, the gap between the price and wage gains will, at best, remain unchanged when compared with the last two years. That gap leaves most citizens constantly struggling to make their income stretch to cover their expenses.

Wages have been declining for the last two years when they are put against the Consumer Price Index. Oil price increases are being absorbed by workers. Also, the lower real income does reflect belt-tightening in other ways. For instance, it reflects workers paying for more medical, Social Security, and welfare payments for those that have been ill, not employed, and unable to be employed.

Since the last issue of this publication, the projection of the profit component of income has also been raised. Corporate profits will keep gaining throughout the year. The KEDI forecast differs from the Administrations projection.

Pretax Profits (Billion of $)

	1979	1980	1981	1982
KEDI	238	256	274	291
Administration	238	228	242	277

As was explained in earlier sections, no recession is anticipated in 1980. Consequently, the profits of businesses will not decline.

1.7 MONEY AND CREDIT

(Table 07. on page 24)

In this forecast, monetary and credit aggregates have been increased when compared with the last forecast, due to changes in Assumptions No. 2, 6 and 9.

Concerning Assumption No. 2 about the interest rates, it is expected that the Federal Reserve tight money policy will remain unchanged throughout the first half year and will loosen somewhat in the second half of 1980. No significant changes in monetary and credit policy of the Federal Reserve system are expected in 1980.

The forecast data show a slowdown in bank commercial loans, and consumer credit in the first half of this year, and the resumption of a faster growth in the second half. The early January data indicate, that funds for banks' commercial loans are adequate and that there will be no shortages in their availability. The forecast data also indicate that funds for consumer loans will not be in short supply.

Some difficulties are expected on the mortgage market. The availability of mortgage credit in the first half of the year, will be reduced. The inflow of mortgage money into banks and savings institutions will not resume before the middle of 1980.

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2000.5	1923.0
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1678.8	1623.0
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1512.8	1459.4
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	150.7	145.1
Personal Saving	bil.$	72.0	79.2	85.9	70.3	55.9	72.8
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	221.5	218.1

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1923.0	2040.9	2091.8	2156.4	2231.8	2130.2
Personal Dispos. Income	bil.$	1623.0	1692.5	1770.8	1856.4	1874.3	1791.0
Compensation of Employees	bil.$	1459.4	1524.6	1584.8	1570.5	1740.3	1625.0
Corp. Profits After Tax	bil.$	145.1	152.4	154.8	166.9	174.8	162.2
Personal Saving	bil.$	72.8	60.8	68.4	72.5	78.3	70.0
Average Weekly Earnings	$	218.1	223.7	228.3	235.5	246.1	231.9

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2130.2	2093.7	2339.2	2405.3	2483.7	2375.5
Personal Dispos. Income	bil.$	1791.0	1876.3	1917.2	1997.3	2029.6	1972.6
Compensation of Employees	bil.$	1625.0	1780.3	1817.1	1922.4	1960.3	1880.1
Corp. Profits After Tax	bil.$	162.2	178.0	184.9	190.6	192.7	186.6
Personal Saving	bil.$	70.0	82.4	87.3	91.5	95.4	89.2
Average Weekly Earnings	$	231.9	243.5	249.8	253.1	258.4	251.2

*Historical data

In December, withdrawals from savings and loan associations were greater than deposits by about $890 million according to preliminary estimates. Depositors have been switching some funds from passbook accounts into higher-yielding money market certificates. The net savings gain in the fourth quarter was about $1.1 billion which is the lowest amount since the like quarter in 1969. This contributes to the tight mortgage money situation.

1.8 INTEREST RATES AND YIELDS

(Table 08. on page 25)

The changes in Assumptions of this forecast did not affect significantly the forecast data of interest rates and yields, presented in the KEDI forecast in December.

For the second half of this year, interest rates have been raised somewhat, when compared with our prior forecast. The increase in the second half of the year has not changed the basic trend, however. The projection shows, again, a slow, continuous decline in interest rates in the second half of 1980 and in the year 1981.

The forecast data for the stock market indicate, that, in general, the stock market will perform strongly in 1980-1982. No significant ups or downs are expected in that period.

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3 *	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.0	376.1
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	658.4	638.9
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	297.8	297.8
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	264.6	264.6
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.2	115.2
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	453.8	453.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.1	402.8	412.6	420.9	427.8	416.0
Time Deposits, Adjusted	bil.$	638.9	668.4	624.3	704.8	726.3	696.0
Consumer Instal. Credit	bil.$	297.8	303.4	309.6	316.8	322.9	322.9
Commerc.and Ind. Loans at Banks	bil.$	264.6	268.7	272.8	278.6	283.1	283.1
Negotiable Cert.of Deposits	bil.$	115.2	120.8	126.9	135.7	137.2	137.2
Mortgages at S&L Assns.	bil.$	453.8	453.1	457.6	469.8	480.7	480.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.0	436.6	447.3	461.2	475.7	455.2
Time Deposits, Adjusted	bil.$	696.0	739.4	756.1	774.2	793.5	765.8
Consumer Instal. Credit	bil.$	322.9	331.5	338.7	349.2	358.7	358.7
Commerc.and Ind. Loans at Banks	bil.$	283.1	289.8	305.6	321.8	331.5	331.5
Negotiable Cert.of Deposits	bil.$	137.2	140.5	148.9	156.7	162.3	162.3
Mortgages at S&L Assn.	bil.$	480.7	489.8	500.3	518.7	529.3	529.3

*Historical data

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.09	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.56	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	106.54	103.81	102.47

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	12.26	11.37	11.06	10.94	11.41
Prime Rate	%	12.76	14.96	14.58	13.24	12.51	13.82
Mortgage Rate, New Homes	%	10.44	11.84	11.56	11.37	11.15	11.48
Aaa Bonds Rate	%	9.66	10.48	10.31	10.14	9.95	10.22
Long Term Govt. Bonds Yield	%	9.52	10.59	10.47	10.19	9.85	10.28
Standard & Poor's 500 Average	1941-43=100	102.47	103.12	204.56	104.87	105.63	104.55

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.27	10.67	10.12	9.94	9.68	10.10
Prime Rate	%	13.29	11.86	11.47	10.96	10.56	11.21
Mortgage Rate, New Homes	%	11.38	10.94	10.85	10.57	10.46	10.71
Aaa Bonds Rate	%	10.04	9.74	9.59	9.41	9.36	9.53
Long Term Govt. Bonds Yield	%	10.27	9.76	9.61	9.43	9.26	9.52
Standard & Poor's 500 Average	1941-43=100	101.67	106.82	108.75	109.63	108.97	108.54

*Historical data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the housing starts in 1979 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the SURVEY OF CURRENT BUSINESS, November 1979 issue, blue pages, from the WEEKLY BUSINESS STATISTICS, January 4, 1980 issue, p. 3, and from the WALL STREET JOURNAL, January 18, 1980 issue, pp. 1, 3. Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond, Va., February, 1979, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS HOUSING UNITS STARTS

(Year 1979 million units)

Actual: 1,720

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
Consensus of Natl. Assoc. of Bus. Economists	18	1.735	+.9
American Statistical Association and National Bureau of Economic Research	19	1.600	-.7
Cyrus T. Lawrence, Inc.	21	1.678	-.2
General Electric Company	23	1.530	-11.1
Philadelphia National Bank	24	1.700	-1.1
University of California	25	1.598	-7.1
The Fidelity Bank	26	1.800	+4.7
Bankers Trust Company	27	1.610	-6.4
Chemical Bank	28	1.730	+.6
KEDI	29	1.771	+2.9
Manufacturers Hanover Trust	30	1.708	-.1
Argus Research Corporation	31	1.770	+2.9
Morgan Guaranty	32	1.617	-6.0

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KEDI ECONOMIC SURVEY

FEBRUARY ISSUE

February 29, 1980

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

Vol. 5, No. 9, February 29, 1980

KEDI ECONOMIC SURVEY

FEBRUARY ISSUE

February 29, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 028000454
KEDI February 29, 1980

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI adheres to the forecast made in the January issue. Assuming that no drastic changes in the Administrations' policy would take place, there will not be a RECESSION. Starting in 1976 this Institute has been predicting that economic growth would slow in 1979 and be at a lower level during 1980 and 1981, than the general growth rate of the 1970's. The Administration's prediction is viewed here as being off the mark and erring, generally, on the side of pessimism. A comparison is given:

	Administration %	KEDI %
Growth 1980	-.6	+1.2
1981	+1.7	+2.6
Unemployment, end 1980	7.5	6.2
Inflation 1980	+11.8	+13.9
1981	+9.2	+12.2

The Carter Administration sees the economic performance in 1980 as being below the level of 1979, whereas some growth, 1.2 percent is predicted here. No recession will occur. In terms of inflation, it is this Institute which is more pessimistic, as can be seen.

The Business Council also provides illustration of the tendency of many forecasters to continue to look ahead to what they see as a possible or real recession and be extremely slow to respond or respond positively to any economic news which contradicts that view. That Council was still saying in the middle of February that the economy will decline 1.0 percent this year. They foresee inflation at a rate slightly lower even than the Administration and unemployment at the same rate as the government does. Even considering the December and January data, many forecasters still cling to the recession idea and only say that such data just means it is being delayed a bit in materializing. They are clinging to grey clouds -- not much to grasp.

The Wall Street Journal ran an article on page one, February 11th with the following title "After the Slump. Analysts Say Upturn Will Be Slow and Weak When Recession Ends." The assumption of an existing recession based on what many forecasters are saying, has no firm foundation as seen by this Institute. The speculations made about third quarter, 1980, recovery from the recession reminds one of fictional houses of cards in a light breeze.

Supplies of industrial goods are not excessive nor are producer's hunting for buyers or offer giving price discounts. Both new factory orders and the backlog of orders was up during January. Purchasing agents view with skeptism the continued recession forecasts which have not materialized. They are more atuned to the higher defense spending and inflation. In other words, new economic data, gives support to the view that slow growth will continue.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the December, 1979, forecasts, the changes concern the Assumptions No. 3 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the previous forecast, slightly higher price increases of energy items and substanially higher defense orders have been considered.

3. No abrupt, drastic changes in the Administrations' and Federal Reserve policies will occur. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease, but not earlier than in 1981.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.1%	3.4%	3.5%
Italy	2.9	2.8	3.0
Japan	2.1	2.0	2.3
Great Britain	1.8	1.9	2.0
France	2.3	2.2	2.3

1.1 REAL GROWTH

(Table 01. on page 8)

At the present time, there is virtually no evidence about a coming downturn in the economy. There is more good news than bad news. This lends confirmation to the view held here all along.

First, retail sales in January were up by 2.3 percent over the December, 1979 total. Comparing January, 1980, with the January of 1979 results in a retail gain of 10.9 percent. Administration spokesmen seemed ready to discount this good news by considering it as some kind of fluke and still trying to interpret it as evidence somehow reflecting a downturn that will start anytime--if not in January, then February, or March, or sometime soon.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1448.7	1742.7
Index of Industrial Production	1967 =100	145.2	152.2	154.3	173.5
Capacity Utilization	%	84.3	85.9	86.6	86.1
Unemployment Rate	%	6.0	5.9	6.3	6.2
Private Housing Starts	mil. units	2.020	1.721	1.519	1.903
Car Sales	mil. units	11.3	10.6	10.3	12.9
Implicit GNP Price Deflator	1972 =100	152.1	165.5	183.2	288.5
Consumer Price Index	1967 =100	195.3	217.4	247.6	400.1
Producer Price Index	1967 =100	209.3	236.1	274.9	414.5
Federal Deficit	bil.$	-27.7	-10.3	-21.1	-23.5
Personal Income	bil.$	1717.4	1923.7	2139.7	3324.8
Prime Rate	%	9.06	12.76	15.79	10.14
Mortgage Rate	%	9.30	10.52	12.44	9.96
Currency plus Demand Deposits	bil.$	352.8	376.3	416.3	680.1
Commercial and Industrial Loans	bil.$	230.9	265.7	283.0	476.9

Secondly, machine-tool orders leaped ahead in January from the December level by 24 percent. Even though the January total was 3.8 percent lower than the year-earlier figure, it still is a sign of relative strength rather than weakness. Industry backlogs were 35 percent higher this January than last and were up 3.3 percent from December 1979. Such backlogs present a mixed view as it reflects some ordering ahead to try to avoid price gains. A drop in machine tool orders is not anticipated here. The strength in this industry is mostly based on solid demand. Defense orders, modernizing, auto industry redesigning, all lend demand to machine tools. The large backlog and shortage of skilled workers may lead some buyers to shop abroad for such tools to get faster delivery.

The third piece of good news concerns durable goods orders. Such orders gained 4.3 percent in January from the prior month. There appear to be many that regard such news as being rather sad as it reflects an economy that is not slowing down to recession levels. Some feel that recession or a least no growth or miniscule growth is needed to curb inflation. Current strength is viewed by some as weakening government anti-inflation views. The backlog of durable goods orders went up last month by 1.1 percent from the December, 1979 level.

Construction spending went up by 0.9 percent in December from the month earlier level. That is viewed here as a bit, although not large, of good news. If the effects of inflation are removed by measuring in 1972 dollars, the December spending rate was up 0.8 percent from the previous month, but down 3.3 percent from the year-earlier figure. Still, if any recession were upon us or approaching, that figure would be much larger in terms of a drop.

The fifth item on the good news side concerns industrial output. In January this index managed to post a rise of 0.3 percent over the revised December level. True, that is almost flat, but it is not negative. It does not add a whisper of veracity to the "recession is coming anytime" pack of bombastic forecasters. The KEDI forecast shows a continuous growth of industrial production: 1980: +1.4%; 1981: +3.2%; 1982: +3.7%.

Now, for the bad news. That comes from our automobile industry. Sluggish production is expected to continue throughout the first half of this year. Recently reported studies have shown the American made car to be generally safer in collisions at speeds of around 35 miles per hour than foreign made cars. That may help sales a bit. However, other studies recently reported reflect the fact that cars made abroad, especially in Germany and Japan, are better made reflecting a concern for craftsmanship by the workers and a more cooperative view to a good product between workers and management.

KEDI forecast for the automobile industry shows the sluggish first half of 1980, followed by a recuperation in the second half of the year. However, more vigorous performance is expected to occur not earlier than in 1981, when the U.S. automobile industry will regain, at least a part, of the market from the overseas competition. In 1980, the share of imported cars on sales is expected to remain at the 25% level. In 1981, it is projected to drop on at 21%, and in 1982, at the 19% level.

1.2 PRICES AND NOMINAL GNP
(Table 02. on page 12)

This Institute's forecast concerning price developments has been revised since the last issue. It is regretted that the revision is not in a down-

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1440.7	1431.7
Index of Indust. Production	1967= 100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	85.8	85.9
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.6	10.6
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1440.5	1443.8	1451.5	1459.1	1448.7
Index of Indust. Production	1967= 100	152.2	152.4	153.0	154.9	156.7	154.3
Unemployment Rate	%	5.9	6.3	6.3	6.2	6.3	6.3
Capacity Utilization Rate	%	85.9	86.1	86.0	86.7	87.6	86.6
Private Housing Starts	mil. units	1.721	1.381	1.517	1.587	1.589	1.519
Car sales	mil. units	10.6	9.7	9.9	10.6	10.9	10.3
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1448.7	1465.4	1481.9	1495.1	1506.9	1487.3
Index of Indust. Production	1967= 100	154.3	157.5	158.3	159.8	161.1	159.2
Unemployment Rate	%	6.3	6.4	6.3	6.2	6.2	6.3
Capacity Utilization Rate	%	86.6	88.3	88.5	88.2	88.9	88.5
Private Housing Starts	mil. units	1.519	1.559	1.715	1.803	1.806	1.721
Car sales	mil. units	10.3	10.6	11.3	11.5	11.5	11.2

*Historical data

ward direction. In the last issue, the prediction for inflation during 1980 was 13 percent. This has been revised to 13.9 percent when comparing 1980 to 1979. The 1981 gain is seen here as being 12.8 percent. The main reasons for the change is in the data for consumer and producer prices for January.

First, consumer prices went up in January by a seasonally adjusted 1.4 percent. Before compounding, that yields an annual rate of 16.8 percent. In December the rise was 1.2 percent, and in November, it was 1.0: each month here being a little more than the month before.

The biggest gain in the consumer price index in January was in the transportation area. Here there was a 3.1 percent gain. Most of this jump is attributable to the rise in gasoline prices.

Mortgage-interest rates jumped 3.6 percent in January's index. Prices of houses were up 0.9.

On an unadjusted basis, the all-urban consumer price index stood at 233.2 percent of the 1967 average in January. The gain in the first month of 1980 as compared to 1979 was 13.9 percent.

The inflation rate is certainly going to have an effect on the labor view of the governments anti-inflation policy. In the 12 months ending in January, when the consumer price index was going up almost 13 percent, the hourly earnings of production and nonsupervisory workers went up by 7.7 percent. (Being in an academic institution, it must be said that professors were hardly any better off than such workers in terms of pay gains.)

The National Center for Economic Alternatives calculated that the prices of the necessities, food, shelter, energy and medical care went up a seasonally adjusted 17.6 percent in 1979 as compared to the previous year. Prices of non-essentials were up 6.8. Energy prices were the biggest culprit here: these gained over 37 percent. The Center estimates that the four necessities comprise about two-thirds of the household spending of roughly 80 percent of all U.S. consumers. (Thermostats are being set lower, while energy producing companies profits get higher.)

Secondly, producer prices for finished goods jumped a seasonally adjusted 1.6 percent in January. That is a 19.2 percent annual rate, before compounding. This includes a rise in prices for energy that more than offset any declines in food prices at the producer level. A spokesman for the Labor Department pointed out the one month lag in the producer price index for energy means that February will likely be even higher. It is felt that the main pressure on producer prices accelerating climb is from the energy, nonfood consumer goods and capital equipment areas.

Mr. Charles Schultze, Chairman of the Council of Economic Advisers recently repeated the administration's view that most of the acceleration in prices in the last two years is attributable to world oil price rises and the effect of higher mortgage-interest rates and house prices. He said, in the long run, the biggest source of inflation is sagging productivity.

KEDI calculations show, that the low productivity of labor causes approximately 50% of current price increases; approximately 30% is due to the oil prices, 10% to the excessive government regulations and environmental protection measures, and the remaining, approximately 10% is caused by various sources, as higher prices of houses, higher interest rates, and others.

KEDI maintains the position that no mandatory wage and price controls will be introduced this year. More vigorous action by the Administration is not expected any earlier than 1981. For now, the indications are that the Administration is not considering the introduction of controls. Statements from the White House reaffirm the continuation of present policies regarding inflation. More economists are beginning to say it may be time to at least think about controls in the face of increasing inflation. The Chairman of the Federal Reserve Board, Paul Volcker, restated his opposition to wage-price regulation and the non-workability of credit controls. The Reserve Board continues to feel that by cutting the money supply growth, inflation can be fought.

This Institute's calculations show that the 15 percent range of price gains it projected for 1980 and 1981 are close to the frontier of keeping the economy running without a more active policy to curb the inflation spiral. If the economy would heat up to a higher rate of inflation, the developments in prices might turn into an explosive situation, making some sort of controls a necessity. Again, this is viewed as a last resort by KEDI.

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 14)

The data in the present forecast remains basically unchanged when compared to the prior issue. KEDI has increased slightly the unemployment rates for the first and second quarters of 1980 in the automobile and construction industries. The rates have been reduced slightly in machinery, electronics, ordnance, and machine-tool industries.

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.6	217.5
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	246.7	236.1
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	237.0	244.7	251.2	257.3	247.6
Producer Price Index, NSA	1967=100	236.1	260.2	270.3	279.4	289.7	274.9
Implicit GNP Price Deflator	1972=100	165.5	175.6	180.8	185.8	190.4	183.2
Gross National Product	bil.$	2369.5	2529.5	2605.0	2696.9	2772.9	2651.1
Personal Cons. Expenditures	bil.$	1510.0	1594.7	1638.9	1699.2	1751.8	1671.2
Gross Private Dom. Investment	bil.$	387.3	386.3	404.1	422.3	434.8	411.9
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.6	266.5	273.4	281.7	289.1	277.7
Producer Price Index, NSA	1967=100	274.9	294.5	301.8	311.7	319.2	306.8
Implicit GNP Price Deflator	1972=100	183.2	191.4	195.8	200.9	206.0	198.5
Gross National Product	bil.$	2651.1	2804.8	2901.6	3003.7	3104.2	2953.6
Personal Cons. Expenditures	bil.$	1671.2	1786.5	1820.4	1927.3	1970.4	1876.2
Gross Private Dom. Investment	bil.$	410.9	449.5	463.8	489.9	514.8	479.5

*Historical data

This Institute maintains the projection of an unemployment rate of 6.3 percent at the end of this year. Also the forecast for the end of 1981, 6.2 percent remains unchanged. The same is true of the other indicators of employment projected here. The preliminary data for January do not indicate any serious departure from our projected figures. As an example, the average workweek for nonfarm workers in January was 35.7 hours. This is the same as the December and the November figures. For factory workers, the average workweek went up to 40.4 hours from 40.3 in December and a November rate of 40.1: slight gains for each of the months. Average factory overtime in January was 3.3 hours which is equal to the November rate and 0.1 above the December rate. These figures are in line with projections that have been made by KEDI in Janaury this year.

There are no indications of any dramatic deterioration in the labor market this year or in 1981 either.

	KEDI projection for the first quarter 1980	January 1980 actual data
Average workweek for nonfarm workers	35.9	35.7
Average workweek for factory workers	40.6	40.4
Overtime factory hours	3.2	3.3

4.0 HOUSING

(Table 04. on page 16)

The forecast concerning housing unit starts has been decreased somewhat when compared with the KEDI projection in the January issue. This is due mainly to two factors.

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TABLE 03. EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.6	98.2	99.0	99.7	98.7
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.3	94.8	95.6	96.4	95.3
Unemployment Rate	%	5.80	6.30	6.28	6.22	6.34	6.29

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.7	100.2	101.3	101.9	102.7	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	95.3	96.9	98.0	98.5	99.4	98.3
Unemployment Rate	%	6.30	6.41	6.25	6.22	6.17	6.26

*Historical data

On the other hand, the recent Federal Reserve increase in the discount rate from 12 to 13 percent resulted in the revision of the projection here in the mortgage rate. It is expected, now that the mortgage rate for new homes will be 12.06 percent at the end of this year as compared with the previously projected 11.15 percent. Higher than expected mortgage rates will have an added dampening effect on housing activity during 1980.

In addition, the rate of housing starts in January has affected the prediction here. The January seasonally adjusted rate was 1.42 million, down from the revised adjusted December rate of 1.52 million. The mild weather aided building some, or the decline would have been a bit more. However, that added activity is really only a switch from some building that would have started a few months later. This Institute has reduced its projection for total housing starts in 1980 by a small amount. Now, the estimate is at 1.519 million as compared with the previous forecast here of 1.577 million.

Other forecasters present a more pessimistic outlook. The U.S. League of Savings Associations' chief economist revised his forecast for 1980 down to 1.35 million units. For the National Association of Home Builders, the reduction was down to 1.2 million.

These forecasts are viewed here as too low, especially taking into consideration the rise in building permits reported in January. These were up by 2.3 percent. Single-family permits were down by 3.7 percent but multifamily permits were up by 12.3 percent over the year-earlier total.

Correspondingly to the lower projection of housing units starts, the projected growth of costs of residential and commercial construction has been slightly reduced.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.800	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972= 100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972= 100	161.8	171.8	173.9	180.0	189.3	178.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.901	1.011	1.056	1.034	1.001
Multifamily Housing Starts	mil. units	.551	.480	.506	.531	.556	.518
Mobile Homes Shipments	thous units	283	274	275	295	282	282
Housing Permits Issued	mil. units	1.535	1.327	1.364	1.371	1.096	1.290
Construction Costs-Commerc.	1972= 100	180.2	193.6	197.9	201.3	208.9	200.4
Construction Costs-Resident.	1972= 100	178.8	192.1	196.8	201.4	208.3	199.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.001	.985	1.137	1.200	1.195	1.129
Multifamily Housing Starts	mil. units	.518	.574	.578	.603	.611	.592
Mobile Homes Shipments	thous units	282	271	304	327	336	310
Housing Permits Issued	mil. units	1.290	1.189	1.214	1.327	1.306	1.259
Construction Costs-Commerc.	1972= 100	200.4	215.6	222.3	227.6	235.7	225.8
Construction Costs-Resident.	1972= 100	199.7	216.3	222.4	228.7	235.6	225.8

*Historical data

1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 19)

The forecast in this issue concerning budgets has very minor changes in it. These are due mostly to the routine revisions of actual data for the fourth quarter of 1979.

KEDI maintains its projection of calendar year deficits in the Federal Budget. The red ink will amount to approximately 20 billion dollars in 1980 and 22.3 billion in 1981.

There are indications that the Administration will make an attempt to trim the present Federal Budget and lessen the deficit in 1981 proposed budget. (Fiscal 1981 starts in October of this year.) Currently the fiscal 1980 spending increases are 14 percent above the prior year level. The 1981 fiscal proposal shows gains of just 9 percent over 1980. That is commendable. However, spending over-runs have been part of recent history. Families running into red ink due to the lowering of real purchasing power usually have a long painful period of decision-making in finding what to cut in spending or how much debt to bear. So do Congressional committees.

It is unlikely that these proposals will meet with success partly because the fiscal year is about half over already. Election year rhetoric plays a part in lofty budget aspirations, and assorted economic needs of high and medium priority will keep the deficit in its own lofty range.

This Institute's new projection of higher inflation rates for 1980 and 1981 when applied to the "entitlement" items in fiscal expenditures yield more spending. However, the inflation rate means the increased tax receipts will roughly match the gain in spending attributable to that escalation.

KEDI's assumption is this: budgetary real expenditures will remain basically unchanged.

Concerning State and Local Budgets, the forecast in this issue as compared to last month, do not show any changes of significance.

1.6 INCOME
(Table 06. on page 21)

In this projection, personal income and personal disposable income have been slightly increased, when compared with the last forecast. However, personal disposable income shows only a very slight increase in 1980 and 1981 when adjusted by the inflation rate computed from the Consumer Price Index.

Personal Disposable Income
(bill. constant 1972$)

	Year 1979	1980 (quarters) 1	2	3	4	Year 1980	Year 1981
Personal Disposable Income	994.0	994.1	995.4	997.1	998.1	996.2	999.7

Projected 1980 and 1981 data show that in this year and the coming year, real personal disposable income will change by .2% and .3% respectively from each prior year. Actually, a slight decline will occur, when measured on a per capita basis.

KEDI's estimate of corporate profits remains basically unchanged. In 1980, the weakest profit performances are expected in auto, steel, rubber, housing, airlines, forest products and stone, clay and glass. Profit gains are projected for petroleum industries, machine tools, nonferrous metals,

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.1	78.4
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-11.3	-10.3
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.3	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.3	14.2
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	22.1	23.7
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	245.1	255.9	262.4	266.9	257.6
Corporate Profit Tax Accruals	bil.$	78.4	82.8	87.9	92.6	94.7	89.5
Surpl./Deficit	bil.$	-10.3	-17.9	-20.3	-24.8	-21.3	-21.1
State and Local Governments:							
Income Taxes	bil.$	40.7	41.9	43.2	45.7	48.4	44.8
Corporate Profit Tax Accruals	bil.$	14.2	15.0	16.1	18.2	19.7	17.3
Surpl./Deficit	bil.$	23.7	20.1	21.3	21.9	22.6	21.5
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	273.1	280.6	285.2	294.6	283.4
Corporate Profit Tax Accruals	bil.$	84.8	99.2	107.4	116.5	125.6	112.2
Surpl./Deficit	bil.$	-20.1	-20.7	-21.2	-22.4	-24.7	-22.3
State and Local Governments:							
Income Taxes	bil.$	43.9	49.3	53.6	58.7	61.7	55.8
Corporate Profit Tax Accruals	bil.$	15.9	21.8	24.5	26.3	27.5	25.0
Surpl./Deficit	bil.$	19.0	23.5	25.2	27.4	29.6	26.4

*Historical data

electrical equipment, chemicals, and railroads. Food and kindred products, paper industry, textiles, utilities, banks, insurance, and real estate will have moderate profit gains in 1980.

The profit forecast by this Institute differs from the one recently published by the U.S. Department of Commerce. They assume a mild recession starting in the first quarter of 1980 and estimate such profits to be accumulating at a $144 billion annual rate, down by 5.6 billion from the rate in the last quarter of 1979. The projection here is for an increase (no recession is assumed at all). First quarter 1980 after tax profits are estimated at $152.7 billion. For 1980 as a whole, the figure here is $161.9 billion.

Many analysts are just now beginning to take a more optimistic view of the profit scene for this year. They are speculating that inflation may keep profits high or expressing the view that if there is no recession, profits might edge upward.

Fourth quarter data for wages and salaries released at the end of February show that they went up by 2.4 percent. The fourth quarter data climb is attributed mainly to the 3.1 percent pay raise manufacturing workers managed to get. For the year, 1979, wages and salaries were up by 8.7 percent. It is obvious that purchasing power was lost when inflation is kept in mind. More of the same is projected for 1980 and 1981. Unfortunately, the gap will be larger: Wage gains will be reflective of an even greater loss in purchasing power.

1.7 MONEY AND CREDIT
(Table 07. on page 23)

The KEDI projection for commercial and industrial loans shows a continuous strong upward trend. They can't be seen, as can be calculated from data in

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2003.1	1923.7
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1681.0	1623.6
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.1	1459.0
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	150.4	145.0
Personal Saving	bil.$	72.0	79.2	85.9	70.3	57.5	73.2
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	222.0	218.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1923.7	2048.7	2099.6	2167.8	2242.5	2139.7
Personal Dispos. Income	bil.$	1623.6	1697.4	1778.5	1864.3	1880.7	1787.7
Compensation of Employees	bil.$	1459.4	1525.9	1588.7	1580.1	1751.2	1611.5
Corp. Profits After Tax	bil.$	145.0	152.7	154.7	166.5	173.7	161.9
Personal Saving	bil.$	73.2	60.1	67.9	71.3	77.5	69.2
Average Weekly Earnings	$	218.2	223.5	227.6	234.6	246.5	233.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2139.7	2019.7	2357.3	2426.1	2511.2	2328.6
Personal Dispos. Income	bil.$	1787.7	1890.2	1937.6	2019.4	2056.5	1975.9
Compensation of Employees	bil.$	1611.5	1794.6	1832.8	1942.7	1995.6	1891.4
Corp. Profits After Tax	bil.$	161.9	177.2	183.9	189.8	192.9	186.0
Personal Saving	bil.$	69.2	80.3	88.1	92.6	98.5	89.9
Average Weekly Earnings	$	233.1	249.8	255.7	259.6	265.3	257.6

*Historical data

Table 07. Also the estimate for consumer credit shows strong growth throughout this year and next.

The recent Federal Reserve moves to tighten both the money supply and credit have been incorporated in projections here. Such moves will make very little difference in monetary and credit aggregates. Demand is strong enough to be barely responsive to the Federal Reserve efforts. Lending institutions are doing just that: lending. According to specialists quoted in the Wall Street Journal, loans on the books of large banks grew at an annual rate of over 20 percent between mid-December and mid-February. In late February some banks boosted their prime rate to 16 and ¼ and even 16 and ½. Yet, due to problems in the bond market and strong demand, it is felt the banks will be increasingly turned to for financing. That is likely to add to the foundation of forces contributing to the growth in the money supply despite Federal Reserve efforts.

Calculations here show that the projected demand for commercial and industrial loans will not be signifcantly cut, unless the discount rate is hiked up to 15 percent and, correspondingly, the prime rate to the 18-20 percent range. A rise to 17 percent is likely soon as pressure mounts for it.

Concerning the monetary aggregates M_1 and M_2, in this issue, they are not changed. They remain the same as in the last month's publication. In the March publication, due out in early April these aggregates will be changed and reflect the new Federal definitions of the money supply.

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3 *	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.6	376.3
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	659.7	639.2
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	299.4	299.4
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.1	404.7	412.5	420.3	427.4	416.3
Time Deposits, Adjusted	bil.$	638.9	670.5	684.1	704.2	726.0	696.2
Consumer Instal. Credit	bil.$	297.8	303.1	308.7	316.1	322.5	322.5
Commerc.and Ind. Loans at Banks	bil.$	264.6	275.9	276.1	279.4	283.0	283.0
Negotiable Cert.of Deposits	bil.$	115.2	120.1	126.4	135.0	136.9	136.9
Mortgages at S&L Assns.	bil.$	453.8	452.9	457.0	468.5	476.4	476.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.0	435.4	445.7	458.9	470.3	452.6
Time Deposits, Adjusted	bil.$	696.0	738.1	756.2	773.9	794.8	794.8
Consumer Instal. Credit	bil.$	322.9	331.9	339.2	350.6	360.4	360.4
Commerc.and Ind. Loans at Banks	bil.$	283.1	290.1	307.5	324.1	336.2	336.2
Negotiable Cert.of Deposits	bil.$	137.2	140.1	148.5	155.4	160.1	160.1
Mortgages at S&L Assn.	bil.$	480.7	480.1	496.5	511.9	520.6	520.6

*Historical data

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 08. on page 25)

As noted in Section 1.02 Assumptions, this forecast takes into account the recent increase in the Federal Reserve discount rate. Hence, the interest rates in Table 08. have been raised. These higher projections have not significantly affected the volume of commercial and industrial loans, consumer credit and mortgages projected. As was mentioned in the Money and Credit section, the demand remains strong. That demand will contribute to the possible further increases expected in interest rates.

The view that recent increases in the interest rate will not significantly affect the level of lending is supported by business leaders who express the feeling that such rates are still not stiff enough to crimp their operations. Banks still have money to lend. There is no shortage of money. An official of Monsanto was quoted in the February 25 Wall Street Journal as saying, they will not be deterred from bank borrowing "because the other debt markets are disastrous." Some express the view that they may consider looking to alternate funding such as bonds convertible into stock if the interest rate continues upward.

Concerning the mortgage rate, the forecast by this Institute is that it will be 12 percent at the end of this year. That is a rate generally expected. Some in the mortgage field feel that it is hardly likely that the rate will get below 11 percent. Others express the view that a rate around 12 percent is likely for this year and next. Others see a rate of around 12 and ¼ for this year.

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate (new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.54	9.77
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.61	9.55
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	103.52	102.39

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate (new issues)	%	10.14	13.52	14.01	13.55	13.16	13.56
Prime Rate	%	12.76	15.94	16.11	15.75	15.36	15.79
Mortgage Rate, New Homes	%	10.52	12.65	12.74	12.32	12.06	12.44
Aaa Bonds Rate	%	9.77	11.12	11.21	11.01	10.67	11.00
Long Term Govt. Bonds Yield	%	9.55	11.48	12.26	12.04	12.01	11.95
Standard & Poor's 500 Average	1941-43=100	102.39	102.85	100.36	101.28	103.56	102.01

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate (new issues)	%	13.56	12.25	12.10	11.27	10.56	11.55
Prime Rate	%	15.79	14.21	14.03	13.28	12.91	13.61
Mortgage Rate, New Homes	%	12.44	11.85	11.75	11.23	10.98	11.45
Aaa Bonds Rate	%	11.00	10.23	10.04	9.71	9.59	9.89
Long Term Govt. Bonds Yield	%	11.95	11.85	11.67	11.12	10.83	11.37
Standard & Poor's 500 Average	1941-43=100	102.01	104.72	106.87	108.31	107.54	106.86

*Historical data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Index of Industrial Production in 1979 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the *FEDERAL RESERVE, Industrial Production*, G. 12.3, February 15, 1980, p. 2. Forecast data are from *Business Forecasts 1979*, published by the Federal Reserve Bank of Richmond, Va., February, 1979, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISON OF ACCURACY OF PREDICTIONS

Index of Industrial Production
(1967 = 100.)

Forecaster	Page in *Business Forecasts 1979*	Forecast	% of Accuracy
United California Bank	7	149.5	-1.8
Harris Trust and Savings Bank	9	145.0	-4.7
The Conference Board Forum	9	148.8	-2.2
Gulf Oil	11	151.5	- .5
National Securities and Research Co.	13	146.5	-3.7
University of Missouri - Columbia	17	158.0	+3.8
J.A. Livingston, Philadelphia	17	149.5	-1.7
Amer. Stat. Associat. and NBER	19	148.7	-2.3
Cyrus J. Lawrence, Inc.	21	146.7	-3.6
The First Natl. Bank of Chicago	22	150.9	-1.0
General Electric	23	147.3	-3.2
University of California	25	146.4	-3.8
The Fidelity Bank	26	152.5	+ .2
Bankers Trust Company	27	150.5	-1.1
Chemical Bank	28	152.5	+ .2
KEDI	29	*150.5*	*-1.1*
Manufacturers Hanover Trust Co.	30	147.3	-3.2
Argus Research Corporation	31	147.9	-2.8

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KEDI ECONOMIC SURVEY

MARCH ISSUE

March 31, 1980

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

Vol. 5, No. 10, March 31, 1980

KEDI ECONOMIC SURVEY

MARCH ISSUE

March 31, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 038000464
KEDI March 31, 1980

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In this issue, the 1979 car sales has been selected for comparison. Almost all forecasters underestimated the actual development.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

President Carter's anti-inflation package was announced on March 14. A quote from the last KEDI issue is appropriate here. "Assuming that no drastic changes in the Administrations' policy would take place, there will not be a RECESSION." The package represents what can best be described as semi-drastic action. This Institute takes the position that the proposals are a step in the right direction and the maximum that probably could be afforded by Carter in the present situation.

It is maintained here, even with the semi-drastic White House news, that no recession will take place in 1980 or 1981 or 1982 unless an additional Washington D.C. made shock will take place. It is forecast that 1980 will be flat, slow growth will occur in 1981 and faster growth in the following year. Again, this assumes that no really drastic actions are taken. Drastic examples are, wage and price controls, prime rate over 21 percent, to name only two "downers."

KEDI Projection

	February 1980 Projection		March 1980 Projection	
	1980	1981	1980	1981
Real Growth	+1.2	+2.6	+0.8	+2.5
Inflation	+13.9	+12.2	+15.0	+12.8
Unemployment, end of year	6.2	6.1	6.4	6.2
Federal Deficit (Calendar year, $bil.)	-21.1	-22.3	-13.8	-10.9
Prime Rate (year average)	15.79	13.61	18.42	17.21

Calculations and common sense show that the accuracy of predictions will depend on the future actions or lack of actions on the part of both the executive and legislative branches of government. If credit is not tightened any more, an economic recession will be avoided. The crucial frontiers are as follows: the prime rate in excess of 20 percent, credit growth of more than 10 percent, and a calendar year 1981 deficit of more than roughly $10 billion. Any of these three or a combination of them would spell recession.

However, at this time the outlook for 1980 does not give a picture of that economic reversal. As was stated, the horizon for this year appears about as flat as the corn acres of Iowa and central Illinois or "Joe Sixpack's" left-open beer. A small but growing number of economists are supporting the view that a recession is not coming. Economists at the University of Michigan revised their forecast from one of mild recession to a prediction of very slow growth through 1980 and part of 1981. The mid-March revision was made due to stronger than expected (At the University of Michigan) consumer purchases, larger income tax refunds and hence purchasing power, and some government attempt to make a dent in the decline in home building.

Also, the Conference Board, in the February issue of its monthly Statistical Bulletin present a more optimistic outlook. Prior to this time they also were expecting some recession.

G. William Miller, Secretary of the Treasury, said recently that, "All economists last fall were predicting a recession." This Institute is small but not totally unknown and the staff takes umbarge at that remark.

Starting in 1976, KEDI has been predicting a slowing of economic growth in 1979 and lower levels in 1980. It has been stated here since last June that there would not be a recession in 1979. KEDI forecast is highlighted on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the February, 1980, forecasts, the changes concern the Assumptions No. 3 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. We expect that the Administration and Federal Reserve will maintain a "wait-and-see" position after the March 14 fiscal and monetary measures. No more drastic changes in fiscal and monetary policies will occur. Policy of maintaining high interest rates and tight money will continue throughout 1980 and will ease, but not earlier than late in 1981.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments,

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1442.5	1740.6
Index of Industrial Production	1967 =100	145.2	152.2	153.7	173.4
Capacity Utilization	%	84.3	85.7	85.5	86.0
Unemployment Rate	%	6.0	5.9	6.5	6.2
Private Housing Starts	mil. units	2.020	1.721	1.308	1.912
Car Sales	mil. units	11.3	10.8	10.2	12.9
Implicit GNP Price Deflator	1972 =100	152.1	165.5	185.2	290.6
Consumer Price Index	1967 =100	195.3	217.5	250.3	409.7
Producer Price Index	1967 =100	209.3	236.2	277.3	420.8
Federal Deficit	bil.$	-27.7	-11.2	-13.8	-21.2
Personal Income	bil.$	1717.4	1924.2	2132.1	3334.9
Prime Rate	%	9.06	12.76	18.22	10.10
Mortgage Rate	%	9.30	10.60	13.20	9.98
Currency plus Demand Deposits	bil.$	326.6	363.8	408.9	678.2
Commercial and Industrial Loans	bil.$	230.9	265.7	275.9	480.3

not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.1%	2.9%	3.0%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

1.1 REAL GROWTH

(Table 01. on page 9)

As has been expected here, the signs are that the economy is slowing. However, they still do not indicate any dramatic downturn.

The Index of Industrial Production increased by 0.2 percent in February, due mainly to the temporary gain in the output of cars. Other industries have shown some slight gain or some slight decline. The February index was 0.7 percent above the year-earlier figure. It was also equal to the recent high which was reached in March of 1979.

The output of consumer goods went up by 0.9 percent in February. Production of such home goods as appliances and furniture declined by 0.6 percent.

The prospects are that the first quarter of 1980 will be fairly good. The current quarter will likely show about the same growth as in the last quarter of 1979. Preliminary data indicate that the economy has been growing at a yearly rate of 1-2 percent.

All things considered, business outlays are still relatively strong. The latest survey of business spending intentions show that money spent on plant and equipment will inch forward by 1 percent or 2 percent this year, adjusted for inflation. Spending plans, overall did not change from the previous survey done in late 1979. It seems that many businessmen do not think the economy is going to be in bad shape. They are not slashing plans to buy or cancelling plans to build very much at all, despite the steep jumps in interest rates.

The Commerce Department reported that U.S. companies plan to spend approximately $197 billion for plant and equipment this year. That is up 11 percent from the 1979 total. A Conference Board survey of the largest manufacturing companies revealed a 13 percent gain in such spending. Those figures are not adjusted for inflation.

The highest interest rates, the uncertainty about the economy, and the disarray on financial markets are still not affecting capital spending at this time to any large measure. More effect will be seen later in the following quarter.

The latest survey of buying agents by the National Association of Purchasing Management Inc. showed that both new orders and production are quite positive. Optimism continued among buying agents. Liquidation of inventories continued but at a much slower rate, indicating that adjustments are over and more companies are reacting to the positive pace of business seen in most industries. Factory orders went up by 3.6 percent, seasonally adjusted, in January. That was the largest monthly gain in over a year. The factory orders gain would have been closer to 8 percent, if it had not been for the 6 percent drop in the transportation equipment area. That drop was attributed mostly to the nosedive taken by the aircraft industry.

New orders for durable goods were up ever so slightly. They reached a seasonally adjusted rate of $82.64 as compared to the previous month revised figures of $82.03 billion. (Every little bit counts.)

Another plus was found in construction spending. That went up by 1.6 percent in January from the December level. Public construction spending moved ahead by 9.4 percent. This offset the .5 percent decline in private construction. To eliminate the effects of inflation, measuring the spending in 1972 dollars still leaves a gain of 1.6 percent over December or an annual rate of $119 billion (as compared to an unadjusted for inflation rate of $246 billion annual rate).

There is some bad news, but it was not unexpected. First, there was a drop in car sales. Such sales declined in February by about 6.7 percent. If it hadn't been for the strong import showing and the numerous U.S. makers sales incentives, it might have been a steeper drop.

In mid-March U.S. auto sales were down by 16.2 percent from the year earlier level. That is viewed as being less of a drop than many had expected. Sales of large, gas-guzzlers were especially weak. (That reflects the good economic sense of most car buyers, but it is unfortunate that auto makers had not foreseen this and that so many thousands of auto makers are without jobs in the large car producing plants.) Japan has stepped into fill the void. Toyota sales were up over 88 percent. There are many Americans that might prefer to buy American but "the better mouse trap" was not built in this country.

There was a drop in retail sales. However, considering that January sales were extremely high, the drop is not too bad. Retail sales fell in February by 0.7 percent from the level of the prior month. The February level still exceeded the December, 1979 sales.

1.2 PRICES

(Table 02. on page 12)

As compared to the previous forecast, the forecast for prices has been revised upward mainly due to two factors. First, Carter's package contained , among other things, a new tax on imported oil which will take effect in June. This contributes to additional gains in the price of gasoline. The increase in interest rates is also obviously involved. It is estimated here that the Consumer Price Index in 1980 will be almost 2 points higher than had been stated in the previous issue of KEDI.

	Before the package and adjustment		After the package and adjustment	
	1980	1981	1980	1981
Consumer Price Index Yearly Average (1967=100)	247.6	277.7	250.3	282.5

Consumer prices jumped ahead by 1.4 percent that month, yielding an annual rate of inflation of 16.8 percent which matched the January rate. As was stated in section 1.01, it is projected here that for 1980 the inflation

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3*	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1440.7	1431.7
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.4	84.6	85.7
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.8	10.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1443.0	1439.2	1441.1	1447.3	1442.5
Index of Indust. Production	1967=100	152.2	152.3	150.9	152.6	155.8	153.7
Unemployment Rate	%	5.9	6.3	6.5	6.6	6.5	6.5
Capacity Utilization Rate	%	85.7	85.1	84.2	85.8	86.7	85.5
Private Housing Starts	mil. units	1.721	1.295	1.370	1.324	1.241	1.308
Car sales	mil. units	10.8	9.6	9.9	10.5	10.9	10.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1442.5	1460.3	1473.8	1486.5	1492.7	1478.3
Index of Indust. Production	1967=100	153.7	156.8	157.5	158.1	158.9	157.8
Unemployment Rate	%	6.5	6.5	6.5	6.5	6.3	6.5
Capacity Utilization Rate	%	85.5	87.8	88.3	88.1	88.4	88.2
Private Housing Starts	mil. units	1.308	1.368	1.447	1.563	1.500	2.470
Car sales	mil. units	10.2	10.6	11.2	11.3	11.5	11.2

*Historical data

rate will be 15 percent and for 1981; 12.8 percent. In 1980 the gains in prices will continue steadily. They will not gradually decline to an annual rate of 10 to 12 percent by the end of the year as some government economists have suggested.

Mr. Robert Russell, director of the Council on Wage and Price Stability said that he believed the inflation rate reached in February will not be exceeded during the rest of the year. He expressed the view that gasoline prices will go up "only" 3 or 4 percent a month, after rising 7 percent in each of the first two months of this year, except for June when Carter's tax on imported oil takes effect. He predicted that after that adjustment of about 8 percent, such prices will behave relatively well. KEDI does not agree. Price rises will continue to bedevil us sporadically as the various oil producing nations add more and more to their charges per barrel of oil.

Housing costs went up an adjusted 1.4 percent for the third straight month. Mortgage interest rates leaped ahead by 2.2 percent. That gain, considered with the slowing down in the housing industry, did help prevent the housing costs from being even higher than they were.

Be of good cheer, there was a wee bit of good news. The index for food prices did not go up in February, and the rise in January was a miniscule 0.1 percent. Also, the prices for apparel were only up by 0.6 percent between January and February. The government will also be refunding over $41 billion in over-paid taxes. So much for brief good news.

On the bleaker side again, medical costs went up by 1.5 percent, and entertainment costs were up by 1.2. The all-urban consumer price index went up by 14.1 percent between February of last year and this year. It was at 236.4 percent of the 1967 average.

Producer prices moved ahead by 1.5 percent last month as compared to January when such prices went up by 1.6 percent. On an unadjusted basis, the index for produce prices was up 1.4 percent and reached 235.4 percent of the 1967 level. Most of the gain is attributed to higher energy costs. Gains in the prices for chemicals, synthetic rubber and fibers, and other goods also were significant contributors to the overall picture.

Taking the global view, inflation darkens the picture from this perspective also. If it is any comfort, other countries are having even worse problems, especially Israel. In Germany, the wholesale price index was leaping ahead at an annual rate of 25 percent in Janaury. The current rate of 5.6 percent is low by comparison, but their inflation rate is now moving up as they are having trouble also getting results from the usual anti-inflation tools. In part, inflation is being imported to West Germany as import prices were up over 20 percent in the last 12 months (oil again a main culprit). In Japan, the wholesale price index has been gaining at an annual rate of 21 percent for three months.

The O.E.C.D. expects there will not be any economic growth, or very little of it in its 24 industrialized members. Inflation in the 11 or 12 percent rage is also forecast for these countries as compared to the 1979 rate of 10 percent.

In England last year, the inflation rate was above 15 percent. The Wall Street Journal quotes the chief economist for Merrill Lynch Economics Inc. in London as saying, "I'm afraid a very big recession would be necessary to squeeze out inflation now." Despite the Thatcher government attempts, inflation is running at an annual rate in excess of 19 percent. The hiking of the national sales tax to offset an income tax cut contributed to that rate.

Inflation in France, also was in excess of 15 percent last year. The rate for the first quarter of this year is projected to be about 16 percent.

Interviews with business analysts conducted by the Wall Street Journal, reveal a general view that inflation will ease a bit but the price to pay will be a recession. Both views are disagreed with by this Institute. Regarding prices, there are multiple factors that will continue to combine to feed inflation, namely; energy prices, escalator clauses in wage contracts, rising social security taxes, the uplifting of the wage-increase guidelines by Carter to the top of 9.5 percent, and the lack of or presence of only infinitesimal productivity gains. Another indirect contributor is in the role of inventories which seem to be in a better balance with sales than last year. There are no huge inventories and hence inventory cutting is less likely to put any crimp in inflation in general.

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 15)

The forecast for the unemployment rate has been raised somewhat in this issue. Two factors have contributed to the joblessness rate predicted now. First, the impact of Carter's package will be, on balance, a source of an additional 0.3 percent unemployment in 1980 and 0.3 in 1981.

The other factor has been the better than expected results in February. The jobless rate fell from 6.2 percent in January to 6.0 percent in February. Total employment increased last month to an adjusted 98 million--a 0.2 percent gain over January. This normally would be good news, but the Labor Department, for example, said that it increases concern about in-

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.7	217.5
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	247.2	236.2
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	238.9	246.9	255.5	260.7	250.3
Producer Price Index, NSA	1967=100	236.2	262.6	272.7	281.8	292.1	277.3
Implicit GNP Price Deflator	1972=100	165.5	176.0	182.7	188.3	193.9	185.2
Gross National Product	bil.$	2369.5	2539.7	2629.4	2713.6	2806.3	2672.3
Personal Cons. Expenditures	bil.$	1510.0	1602.4	1659.6	1711.3	1780.7	1688.5
Gross Private Dom. Investment	bil.$	387.3	389.5	410.8	425.6	440.1	416.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	250.3	268.7	278.1	286.0	297.1	282.5
Producer Price Index, NSA	1967=100	277.3	302.5	312.4	322.2	330.4	316.9
Implicit GNP Price Deflator	1972=100	185.2	197.5	201.3	206.2	211.3	204.1
Gross National Product	bil.$	2672.2	2884.0	2966.8	3065.2	3154.1	3017.4
Personal Cons. Expenditures	bil.$	1688.5	1836.4	1361.2	1970.7	2011.0	1919.8
Gross Private Dom. Investment	bil.$	416.5	458.9	474.0	501.4	526.3	490.2

*Historical data

flation as the employment picture is one illustration of the lack of any meaningful slowdown that might help slow price gains.

The Carter package has also influenced the other indicators of employment and labor as used by this Institute.

	Before the Package & adjustment		After the Package & adjustment	
	1980	1981	1980	1981
Average workweek (hours)	35.1	36.0	34.9	35.8
Total employment increase	+1.5%	+2.8%	+1.3%	+2.7%

Compared with the last forecast, the main additional decreases in this issue have been in employment in the following industries: housing, construction, appliances, carpeting, furniture, automobiles and related industries, rubber, and clay and stone products.

1.4 HOUSING

(Table 04. on page 17)

Housing starts in 1980 are predicted to drop by 17 percent instead of the previously reported 15 percent decline. For the year 1981, the forecast remains basically unchanged.

The revision of this forecast is due to the Administration's March 14 measures and the consequences, i.e., higher mortgage rates and tightening of mortgage credit availability.

Compared with other forecasters, KEDI's view of housing starts remains optimistic. The National Association of Home Builders predicts 1 million starts this year. Other forecasts fall into the 1.1 to 1.3 million range. The estimate here is for a total of 1.384 million starts.

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.6	98.0	98.7	99.5	98.5
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.3	94.6	95.3	96.2	95.1
Unemployment Rate	%	5.80	6.31	6.49	6.57	6.52	6.47

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.5	100.1	101.1	101.7	102.5	101.3
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	95.1	96.8	97.8	98.3	98.2	98.0
Unemployment Rate	%	6.47	6.54	6.50	6.47	6.31	6.46

*Historical data

This is supported by the developments in housing building permits. In February, the permits dropped by just 7 percent from the prior month. All things considered, this is not too bad. The February total was just 1.4 percent below the year-earlier figure. Permits for single family homes were down 26 percent in February. However multi-family unit permits gained 34 percent.

The sharpest drop in the forecast by KEDI this month is for mobile homes. We expect now that in the year 1980, mobile home shipments will be 251 million units and in 1981, 280, compared with the last forecast of 282 and 310 million, respectively. Recuperation of the mobile home industry is not expected to begin any sooner than in 1982.

The median sales price of a new single-family home went up by $2,700 between December and January to $61,400. Builders still had about an 8 month supply of unsold new homes on hand.

The forecast here is that such homes will cost $70,000 by the end of this year. That is unchanged from the prior issue. It represents an 11 percent gain over the December, 1979, level. This is a more "positive" view than the Realtors' Association outlook. They predict that such prices will go up by 13 percent this year.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 20)

The effect of President Carter's fiscal package on the projections here is as follows: decrease in the Federal deficit for calendar 1980 to 13.8 billion from 21.1 billion and a decrease in calendar 1981 from 22.3 to 10.9 billion.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3 *	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.680	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972= 100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972= 100	161.8	171.8	173.9	180.0	189.3	178.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.794	.846	.873	.752	.804
Multifamily Housing Starts	mil. units	.551	.501	.524	.501	.489	.504
Mobile Homes Shipments	thous units	283	260	251	272	257	260
Housing Permits Issued	mil. units	1.535	1.286	1.204	1.201	1.007	1.150
Construction Costs-Commerc.	1972= 100	180.2	193.5	197.8	201.4	209.0	200.4
Construction Costs-Resident.	1972= 100	178.8	192.2	196.7	201.3	208.4	199.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	.804	.875	.926	.974	.908	.921
Multifamily Housing Starts	mil. units	.504	.493	.521	.589	.592	.549
Mobile Homes Shipments	thous units	260	243	271	302	314	283
Housing Permits Issued	mil. units	1.150	1.086	1.153	1.186	1.202	1.157
Construction Costs-Commerc.	1972= 100	200.4	215.7	222.6	228.0	235.4	226.1
Construction Costs-Resident.	1972= 100	199.7	216.4	222.6	229.0	235.8	226.0

*Historical data

Unless very dramatic cuts in the fiscal 1981 budget that starts October 1, 1980, are made, the President's goal of a balanced budget seems to be not very realistic. The Administration has projected the 1981 budget deficit at $15.78 billion. That was based on the Administration's unrealistic prediction of 11.8 percent increases in the Consumer Price Index in 1980 and 9.2 percent in 1981. Taking into account more realistic inflation rates of 15.0 percent in 1980 and 12.9 percent in 1981 and their impact on the resulting gains in veteran's benefits, social security, and Medicare payments, only, a fiscal deficit of $25 billion before the planned cuts is expected. The Congressional Budget Office forecasts a $20 billion deficit for fiscal 1981 as outlays are seen as rising faster than revenues. Assuming, that the Administration will succeed to cut the budget by $15 billion, it will remain still the deficit of approximately $10 billion. Many of the budget cuts and tax proposals studied now in the Senate and House Committees are controversial and will require much debate and negotiating before any agreement is reached. The fiscal effect seems likely to be not as large as proposed be Carter.

The situation with the fiscal 1980 budget is one that would not lead people to say "Everything's coming up roses." Recently released data for February show that the U.S. budget deficit widened to $39.53 billion: approximately the same amount as projected for the entire year by the Administration.

The Congressional Budget Office projects that the fiscal deficit in 1980 will be in the $45-47 billion range. That corresponds with the forecast by this Institute.

In the forecast, the surpluses of State and Local Governments budgets have been revised downward, due to the anticipated reduction of receipts from revenue sharing and the smaller tax returns.

1.6 INCOME

(Table 06. on page 21)

Forecast data for personal income and components have been changed slightly due to the routine adjustments orginating from recently released statistics. Personal income rose only marginally, 0.3 percent in February, seasonally adjusted, from the Janaury level. The increase in personal consumption spending also slowed: it was up just 0.5 percent.

The forecast for Compensation of Employees was decreased slightly for 1980-82. This was needed due to the higher than previously anticipated unemployment forecast for 1980-81 which, as was mentioned, reflects the Administration's budget revision. For 1980-82, transfer payments have been increased.

Personal Savings projections for 1980-81 were raised slightly because of the smaller anticipated increase in personal expenditures in current dollars. Projections of Corporate After Tax Profits in 1980 have been lowered. The cause here is mainly in the expected further deterioration of profits of banking and intermediarie's industry, and in construction, automobiles, and retail trade.

1.7 MONEY AND CREDIT

(Table 07. on page 24)

Table 07. contains the revised data for the money supply, M1-A and M2,: the new indicators used by the Federal Reserve System.

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.7	-11.2
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.0	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	15.0	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	26.0	24.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	246.3	256.8	264.3	267.2	258.7
Corporate Profit Tax Accruals	bil.$	78.5	82.6	85.8	92.3	94.5	88.8
Surpl./Deficit	bil.$	-11.2	-17.6	-12.2	-10.6	-14.8	-13.8
State and Local Governments:							
Income Taxes	bil.$	40.7	41.9	43.5	45.9	48.7	45.0
Corporate Profit Tax Accruals	bil.$	14.4	14.9	16.0	18.0	19.5	17.1
Surpl./Deficit	bil.$	24.7	15.6	17.0	18.0	18.9	17.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	258.7	280.4	286.7	289.4	295.1	287.9
Corporate Profit Tax Accruals	bil.$	88.8	99.3	107.8	116.9	126.3	112.6
Surpl./Deficit	bil.$	-13.8	-10.2	-10.4	-11.2	-11.9	-10.9
State and Local Governments:							
Income Taxes	bil.$	45.0	49.1	53.7	58.9	62.3	56.0
Corporate Profit Tax Accruals	bil.$	17.1	21.9	24.7	26.5	27.7	25.2
Surpl./Deficit	bil.$	17.4	18.5	20.2	22.5	24.9	21.5

*Historical data

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2005.0	1924.2
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1683.1	1624.1
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.2	1459.5
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	148.8	144.6
Personal Saving	bil.$	72.0	79.2	85.9	70.3	59.7	73.8
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	224.1	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1924.2	2041.2	2090.3	2160.3	2236.4	2132.1
Personal Dispos. Income	bil.$	1624.1	1688.5	1757.4	1833.6	1870.0	1787.4
Compensation of Employees	bil.$	1459.5	1516.7	1574.3	1571.2	1743.6	1601.2
Corp. Profits After Tax	bil.$	144.6	150.1	152.8	157.9	168.4	157.3
Personal Saving	bil.$	73.8	61.3	68.9	72.4	78.7	70.3
Average Weekly Earnings	$	218.7	227.3	230.4	235.2	241.3	233.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2132.1	2294.8	2350.4	2410.7	2565.3	2380.7
Personal Dispos. Income	bil.$	1787.7	1930.3	1937.3	2058.1	2114.3	2025.0
Compensation of Employees	bil.$	1611.2	1810.4	1872.6	1932.7	2015.4	1907.8
Corp. Profits After Tax	bil.$	157.8	176.5	182.9	188.4	190.5	184.6
Personal Saving	bil.$	70.3	83.9	88.7	93.1	99.2	91.2
Average Weekly Earnings	$	233.6	247.6	252.8	258.7	262.4	256.1

*Historical data

This forecast incorporates the Administration's anti-inflation measures adopted March 14; namely, the credit restrictions, extensions of reserve requirements on nonmember banks of the Federal Reserve System, increases in interest rates, and the curtailing of some types of consumer credit.

The new forecast shows the 12 percent gain in the money supply, M1-A, in 1980 when compared with the prior year and a further increase of 11.2 percent in 1981. For M2 , the gains are 14.3 and 12.6 percent, respectively. In both categories, that is fairly steep growth which does not contribute to any substantial relief from inflationary pressures.

In this issue, the data for banks' commercial and industrial loans show slower growing trends when compared with former forecasts.

Calculations show that the economy can sustain the "shock treatment" of the Administration and still remain without recession. KEDI considers those measures to be adequate for the time being. A simulation with stiffer credit controls, i.e., the further rise of the overall discount rate to 15 percent with the prime rate moving above 21 percent toward 25 percent and corresponding gains in other interest rates would drive the economy into a recession straightaway. Indications are that, at the present time, these credit restraints have been maximum that can be imposed without risking a serious unnecessary downturn.

This Institute does not agree with the view of Mr. Volcker, Chairman of the Board of Governors of the Federal Reserve System. He warned that he would tighten monetary policy more if the budget-trimming proposals are not enough to put a dent in inflationary pressures. He told the Senate Banking Committee that "The less fiscal restrain you get, the more the burden falls back on us." He also said "The quicker we get through this period, the better. The more help we have from other instruments of policy, the better." (Wall Street Journal, March 19, 1980)

In late March, an offical of Merrill Lynch Government Securities Inc. estimated that the money supply will grow in April by an annual rate of 12 percent due to strong loan demard and the large income tax refunds and that further tightening would be needed.

This Institute expects that the Board of Governors will continue its wait-and-see position and not make further efforts to tighten credit more.

The KEDI position is that bringing inflation down to any substainable degree will be a long-term process. One cannot expect that it could be done in a short period of time. The causes of inflation being experienced in this country are not only located in the monetary and fiscal side of the economy. The causes are mainly in the STRUCTURE of the economy. Ever increasing prices of energy, declining productivity of labor, excessive wage requirements and the weak international value of the dollar belong to the contributors of the inflation spiral in the U.S.A. There are also causes outside of this country. The reader is well aware of the world oil situation and what the oil "have's" are doing to the oil "have-nots."

8.0 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 08. on page 26)

The KEDI forecast concerning interest rates shows a high, steady level in 1980 and in the early part of 1981. There will be a more significant downturn toward the end of 1981.

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits, M-1A	bil.$	352.8	358.4	361.7	365.4	369.7	363.8
Time Deposits, Adjusted, M-2	bil.$	1133.6	1422.3	1459.6	1488.5	1515.2	1471.4
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.2	298.2
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits, M-1A	bil.$	363.8	394.0	403.8	415.9	421.7	408.9
Time Deposits, Adjusted, M-2	bil.$	1471.4	1581.2	1637.3	1708.5	1740.2	1666.8
Consumer Instal. Credit	bil.$	298.2	306.2	310.2	312.6	318.7	318.7
Commerc.and Ind. Loans at Banks	bil.$	265.7	275.9	277.3	279.1	282.2	282.2
Negotiable Cert.of Deposits	bil.$	115.6	120.1	129.8	138.4	140.4	140.4
Mortgages at S&L Assns.	bil.$	454.2	452.9	454.5	459.7	465.8	465.8

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposits, M-2	bil.$	408.9	437.8	448.9	463.6	478.7	452.3
Time Deposits, Adjusted	bil.$	1666.8	1814.7	1886.2	1943.1	1995.6	1908.9
Consumer Instal. Credit	bil.$	318.7	326.5	330.4	339.5	350.7	350.7
Commerc.and Ind. Loans at Banks	bil.$	282.2	280.9	290.6	299.5	311.4	311.4
Negotiable Cert.of Deposits	bil.$	140.4	145.6	157.8	162.6	170.4	170.4
Mortgages at S&L Assn.	bil.$	465.8	470.3	476.7	487.4	492.5	492.5

Historical data

It is assumed, that in 1981 the new Administration will continue with the tight credit policy and high interest rates to assist in curbing the inflation rate gains.

A look at the international situation shows that no stimulus from the outside to aid in the decline of interest rates can be expected. The inflation rate in most of the world will not abate soon. The KEDI forecast of the inflation rates in 1981 as compared with 1980 is as follows: Japan: +11%, Great Britain: 17%, Canada, 12%, France 10%, Italy 11%, and Germany 8%. Consequently, these and other countries will have to adopt more rigorous anti-inflation policies, and their interest rates will be under constant upward pressures. Thus the gap between the interest rates in the U.S. and in other countries will narrow leaving no room for any significant drop in this country.

The projection of this Institute for the stock market shows slight decreases throughout the second quarter of this year with stabilizing in the second half and a gradual rebound during 1981.

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	12.21	10.60
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.58	9.78
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.65	9.56
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	103.52	102.39

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	15.07	15.93	15.71	14.95	15.42
Prime Rate	%	12.76	17.13	18.53	18.66	18.52	18.22
Mortgage Rate, New Homes	%	10.60	12.89	13.52	13.31	13.09	13.20
Aaa Bonds Rate	%	9.78	11.72	13.65	13.84	13.67	13.22
Long Term Govt. Bonds Yield	%	9.56	12.69	13.04	12.67	12.43	12.71
Standard & Poor's 500 Average	1941-43=100	102.39	108.23	100.38	199.81	100.24	102.17

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	15.42	14.06	13.85	13.56	13.07	13.64
Prime Rate	%	18.22	17.85	17.84	17.03	16.50	17.21
Mortgage Rate, New Homes	%	13.20	12.97	12.74	12.27	11.76	12.43
Aaa Bonds Rate	%	13.22	12.96	12.58	12.04	11.75	12.33
Long Term Govt. Bonds Yield	%	12.71	12.52	12.48	12.40	12.06	12.37
Standard & Poor's 500 Average	1941-43=100	102.17	100.76	101.53	103.48	106.21	102.99

*Historical data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the car sales for the year 1979 have been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the Survey of Current Business, Vol. 60, No. 1, blue pages S-36 (monthly, U.S. Department of Commerce, Washington, D.C.) Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond Va., February 1979, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

CAR SALES

(1979, mil. units)

Actual: 10.8

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
General Electric	23	10.4	-3.4
Philadelphia National Bank	24	10.8	.0
University of California	25	10.2	-5.6
Chemical Bank	28	10.6	-1.9
KEDI	29	10.9	+.9

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KEDI ECONOMIC SURVEY

APRIL ISSUE

April 30, 1980

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

BEST AVAILABLE COPY

Vol. 5, No.11, April 30, 1980

KEDI ECONOMIC SURVEY

APRIL ISSUE

April 30, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 048000474
KEDI April 30, 1980

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2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 31

In this issue, the first quarter 1980 personal income has been selected for comparison. KEDI forecast has been on target. Other forecasters underestimated the actual development.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Uncertainty:

Uncertainty comes in because of the importance of the monetary, credit, and fiscal policies of the Administration. If the current policies are continued, the economic picture will certainly differ -for the worst- from what the picture might show otherwise. The media is accenting the negative. Perhaps there is a desire for a self-fulfilling prophecy: A recession is discussed, so find all evidence to support its existence or forthcoming appearance. The attention the stories get may also be influential on the Administration to consider loosening their tight economic reins.

Many economists and politicians feel that the United States is already in a recession. President Carter recently said that a recession "probably" exists, but that his main economic concern was still inflation. He was quoted on April 18 as follows: "...I also know that we cannot reduce interest rates and we can not make jobs secure until we get the inflation rate down." He indicated that he would "try" (what specifically was meant here was not clear) to help those hit the most by current economic conditions within constraints of the budget. One of his promises was for a new emergency credit bill for farmers. Also being explored was ways to provide more mortgage subsidies to those homeowners with middle or low income levels in need of help.

(Broadly defined, most homeowners probably feel they want to yell "HELP!" as it gets harder to meet that mortgage payment when limited income has to stretch to pay other rising costs.)

The Chairman of the President's Council of Economic Advisers said, in late April, that the U.S. has entered a recession. He expressed the view that it will be mild. Mr. Volcker of the Federal Reserve Board repeatedly stressed that they intend to keep on restraining the growth of money and credit. He also said that there is a "good chance" that the recession has arrived. He did say that interest rates are expected to go down as demand for credit lags in the recession.

G. William Miller, Tresury Secretary, said in late April that the recession would last for two or three quarters. Alfred Kahn expressed worry that the recession will be a severe one.

The media picks up on the more gloomy expressions of what might be coming. One article in the Wall Street Journal made a headline of "...Carter Aides Fear Deeper Recession..." Yet, inside that article was the news that there was small growth in the first quarter.

There are opinions expressed that are not of the panic or near disaster variety. For instance, earlier in the month Alfred Kahn speculated that a recession might be avoided if the increases in wages and prices can be moderated. Although the Labor Secretary, Ray Marshall, said that the signs point to a recession, he could not say that one had begun, now would he venture a guess as to when it might start.

The textbook definition of a recession requires that there be two quarters of economic decline in the GNP. Too many economists and economic writers are forgetting that proper definition.

During the first quarter there was real growth - nothing to shout about unless one is faced with those "convinced" we are in a recession - THE FIRST QUARTER OF THIS YEAR DID SHOW GROWTH. If a recession is to come, then, it will not be seen until the early part of the fourth quarter when the data from the second and third quarters are in and if they show two declines when each is compared to the prior quarter.

KEDI maintains its forecast for what is essentially a flat year providing the Administration relaxes its credit and interest rates policy in this quarter and takes steps to ease restraints along with other anti-recession steps.

Such a view is not totally without support in high places. One member of the Council of Economic Advisers, Lyle Gramley, indicated in mid-April that he favors slowing the growth of money and credit, but that it is necessary to see that interest rates come down shortly.

More specifically, calculations of this Institute show that if the Administration does not relax its restrictive policy in coming months, i.e. in early summer, the U.S. economy will fall into a deep and long recession, extended in the year 1981. If that happens, then the inflation will "turn the corner" and we will witness the slowdown in price increases, but the price the country will pay for that, will be too high. The surgery will be successful and the patient dead.

This Institute's founder believes that the policy of gradual abating of inflation is best for the economy rather than any kind of shock treatment. It may be a surprise (then again, it may not be) to learn that agreement on this is found in the views of Milton Friedman: he also is for a gradualist policy. A delicate touch pressing ever so lightly but steadily on the money supply may be frustrating but it will avoid the pain that a deep recession can cause which would occur if the money supply took a sharp blow right at the money belt. Again, as was outlined in the March 31 issue, the causes of inflation are not to be found in monetary policy alone but more basically in the structure of the economy in the U.S. and in other nations tied together through trade links to us and each other.

There are clear signs of slowdown in the economy. Industries connected to housing and automobile production are beginning to be affected. This is also true of lumber, furniture, rubber, and plastics.

Calculations here show, that if the Administration waits to make anti-recession moves, that will be too late - like running out to buy a smoke alarm while a fire smolders. If no action is taken until then, there will be a severe recession extending through 1981.

In the new forecast of KEDI, the second quarter will show a downturn but, the third quarter will be essentially flat and the fourth quarter will show some upturn. For 1980, as a whole as compared to the prior year, 0.4 per cent growth is likely which is essentially flat.

There are numerous reasons why a downturn in general is not expected. First, agriculture will remain strong. The amount of acres planted this year is about the same as in 1979. Second, factory orders went down very slightly in March. Third, new orders showed a gain that month. Fourth, there is no indication that business will slow down on capital spending to any significant degree. And fifth, pressure from the housing and auto and lumber industries will likely help lead the Administration to loosen restraints. If not, there will be a severe recession.

KEDI forecast is highlighted on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72 $	1399.2	1431.7	1440.9	1745.7
Index of Industrial Production	1967 =100	145.2	152.2	150.6	175.7
Capacity Utilization	%	84.3	85.7	83.7	87.0
Unemployment Rate	%	6.0	5.9	6.9	6.0
Private Housing Starts	mil. units	2.020	1.721	1.189	1.936
Car Sales	mil. units	11.3	10.8	9.4	13.0
Implicit GNP Price Deflator	1972 =100	152.1	165.5	182.8	280.3
Consumer Price Index	1967 =100	195.3	217.5	247.3	389.6
Producer Price Index	1967 =100	209.3	236.2	272.1	400.3
Federal Deficit	bil.$	-27.7	-11.2	-13.7	-19.1
Personal Income	bil.$	1717.4	1924.2	2127.9	3330.6
Prime Rate	%	9.06	12.76	17.85	10.04
Mortgage Rate	%	9.30	10.60	13.16	9.92
Currency plus Demand Deposits	bil.$	326.6	363.8	385.4	621.7
Commercial and Industrial Loans	bil.$	230.9	265.7	289.9	492.4

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1440.9	1745.7
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Consumer Price Index	1967 =100	195.3	217.5	247.3	389.6
Producer Price Index	1967 =100	209.3	236.2	272.1	400.3
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1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the February, 1980, forecasts, the changes concern the Assumption No. 3.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40 and in 1982, to $46 per barrel.

2. It is still too current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. We expect that the Administration and Federal Reserve will maintain a "wait-and-see" position after the March 14 fiscal and monetary measures. No more tightening in fiscal and monetary policies will occur. In Summer, the Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the

policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.1%	2.9%	3.0%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

1.1 REAL GROWTH

(Table 01. on page 13)

First, some good news is in order. The first quarter of this year showed a bit of growth in GP real GNP as the adjusted figure for that time period was 1.1 per cent higher than the figure for the previous quarter.

In agriculture, the overall picture shows that the number of acres planted will be about the same this year as last. Slightly more corn is being planted and soybeans are being planted at about the rate they were last year. The farmer is financially pressed, but tight profit margins seem to mean planting the same acres while trying to cut costs. The government bought up over 150 million bushels of wheat in order to aid prices for that commodity after the January Russian embargo. One bright spot on the export scene is agriculture which comprises the largest export item the U.S. has. It accounted for some $32 billion in the balance of trade last year. Despite embargo restrictions, the Department of Agriculture estimated 1980 exports at $37 billion for 1980.

New factory orders did fall in February, but only by 0.6 per cent. New orders for nondefense capital goods went up by an adjusted 5.7 per cent in March from the February level. This certainly indicates business plans for capital investment are not on the decline.

The backlog of orders last month increased somewhat: the adjusted March level exceeded the prior month by 0.7 per cent. In February, inventories were up by that same amount indicating a conservative policy here with no significant buildup.

The impetus toward a slowdown given by policies carried out by the government is now showing effects. During March, total auto sales fell by 16 per cent (figured on a daily basis to make February and March comparable). Sales of U.S. made autos went down by 19 per cent, and sales of imports declined by about 7 per cent when this March is compared to the year-earlier figure. Money and credit policies are not totally responsible. Detroit's lack of foresight in producing well made, smaller, fuel efficient cars also contributes!

In April, the auto industry production schedule for the second quarter was announced. It reflected a drop of about 20 per cent in planned production as compared to the second quarter of 1979.

Industrial production in March was down by 0.8 per cent from the prior month on a seasonally adjusted basis. The drop was mainly in consumer durable goods (household durable goods and, naturally, cars).

In March, factories were operating at a seasonally adjusted rate of 83 per cent of capacity. That was down from the February rate of 83.9 and the year earlier rate of 87.1 per cent.

Overall, retail sales were down by a seasonally adjusted 1.3 per cent in March. This followed the 1.6 per cent drop between January and February. The erosion of purchasing power that inflation has caused and the low rate of the savings level has led to added pressure for consumers. The chief economist for the Commerce Department said the conditions for retail sales will be worse in April and May. He also said that the recession is starting this quarter. This Institute does not agree with that as was discussed in the Overview section.

The University of Michigan surveyed consumers and found that they were more pessimistic about the economy in March than they had been at any time since the survey was started in 1946. (How much of this reflects the bad-news emphasis of the media is a question brought to mind.) There is no doubt, however, that the consumer is worse off with each dollar buying less and most paychecks not keeping up with inflation. In March, the survey found that 48 per cent of all families said they were worse off than a year earlier (up from 36 per cent a year earlier). Only 24 per cent said they were better off than they were a year ago. (One wonders how they got to be better off: promotions, shrewd investment, moonlighting, wife entering the paid labor force, selling the family silver or skulduggery.)

Roughly 70 per cent said they expect bad times financially during the next five years. About 60 per cent indicated they viewed house buying conditions as unfavorable. Regarding durable goods, 38 per cent viewed current buying conditions as unfavorable (as opposed to 25 per cent in March, 1979).

The slowdown has started to spread into industries such as lumber, rubber, and related industries. These conditions serve to underline the position of this Institute that unless the Administration lets up on its restraints within the next few months, we will have a severe recession.

The lumber industry in the Northwest is being hit with both barrels: the effects of the housing industry slump and a shortage of trees. In the Northwest, lack of foresight has led to a shortage of trees to cut. Recent plantings are at least a decade or two from being mature enough to harvest. Unemployment faces thousands of lumber jobs in that area. At the same time, there is some expansion in the South where there are now mature forests and less Forest Service owned land, but overall the industry is in decline.

Low auto production has led to cutbacks in the tire industry. Firestone Tire and Rubber Company, for example, has 3,600 employees on indefinite layoff and over 900 more will be laid off in April. Goodyear layoffs will total about 4,700 by the end of April.

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1440.7	1431.7
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.4	84.6	85.7
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.8	10.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1444.2	1439.0	1439.2	1441.0	1440.9
Index of Indust. Production	1967=100	152.2	152.1	150.1	149.5	150.7	150.6
Unemployment Rate	%	5.9	6.1	7.1	7.4	7.0	6.9
Capacity Utilization Rate	%	85.7	85.1	83.0	83.0	83.8	83.7
Private Housing Starts	mil. units	1.721	1.266	1.149	1.155	1.185	1.189
Car sales	mil. units	10.8	9.5	9.0	9.1	9.8	9.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1440.8	1457.8	1470.4	1484.3	1490.2	1475.7
Index of Indust. Production	1967=100	150.6	154.2	155.3	157.4	158.3	156.3
Unemployment Rate	%	6.9	6.6	6.5	6.5	6.4	6.5
Capacity Utilization Rate	%	83.7	85.9	86.8	86.9	87.1	86.7
Private Housing Starts	mil. units	1.189	1.124	1.284	1.412	1.459	1.320
Car sales	mil. units	9.4	10.1	0.6	11.0	11.2	0.7

1.2 PRICES

(Table 02. on page 15)

In this issue, there has been slight revisions in the data for 1980 and 1981 concerning prices. KEDI expects that the inflation rate as measured by the Consumer Price Index, will be 14.4 instead of the 15.0 that was previously reported. For 1981, the rate is calculated at 12.3 instead of the 12.8 per cent reported in the March issue. The change in the projection for 1982 are three-tenths of one per cent: from 11.4 to 11.1. These are extremely small changes. Calculations show that the rate of inflation would decline significantly more, well below the double digit level, provided that the Administration would not relax the credit and fiscal policy. The slowdown in the increases of prices will begin the second half of the year. This will be mainly in the prices of nonferrous metals, machinery, building materials and durable consumer goods.

Food prices are expected to begin an upward climb in the Fall of this year. At that time the current "bargains" in such items as poultry and pork will end as supplies are curtailed. Also, about 60 per cent of the cost of food is added after it leaves the farm, the additional costs, such as those for transportation (rising with oil prices) will begin to filter more into the final consumer price. Overall, the Agriculture Department estimates food prices will go up about 9 per cent this year, after increasing 10.9 per cent in 1979.

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.7	217.5
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	247.2	236.2
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.5	244.5	251.1	257.2	247.3
Producer Price Index, NSA	1967=100	236.2	258.7	267.1	276.2	286.3	272.1
Implicit GNP Price Deflator	1972=100	165.5	174.5	180.1	185.4	191.0	182.8
Gross National Product	bil.$	2369.5	2520.3	2591.6	2668.3	2752.3	2633.1
Personal Cons. Expenditures	bil.$	1510.0	1634.1	1628.3	1639.7	1700.1	1650.6
Gross Private Dom. Investment	bil.$	387.3	388.8	402.3	418.5	432.4	410.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.3	262.1	269.7	277.8	281.4	272.8
Producer Price Index, NSA	1967=100	272.1	292.7	300.3	311.5	318.7	305.8
Implicit GNP Price Deflator	1972=100	182.8	194.6	198.8	204.8	208.4	201.7
Gross National Product	bil.$	2633.1	2836.9	2923.2	3039.8	3105.6	2976.4
Personal Cons. Expenditures	bil.$	1650.6	1795.8	1839.9	1900.2	2001.2	1884.3
Gross Private Dom. Investment	bil.$	410.5	446.7	467.1	493.5	519.4	481.7

Consumer prices went up by 1.4 per cent in March on a seasonally adjusted basis. That was the same rate of gain as was reached in the first two months of this year which would be 16.8 per cent at an annual rate (not compounded). During March, food prices went up an adjusted 1 per cent after remaining stable in February. Housing costs went up by 1.6, and transportation rose 1.7 per cent which was an improvement of sorts when compared to the 2.8 per cent jump in February. Gasoline prices went up an adjusted 3.9 per cent. To be an optimist, compare that rate to February: then the gain was 7.3 per cent from the January level.

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 17)

As compared with the last forecast, in this issue the projection for the unemployment rate has been increased due mainly to the larger than expected rises in unemployment in the housing, construction and automobile industries. The general predicted trend remains unaffected. Unemployment will keep increasing throughout this year and stabilize in 1981.

The forecast of the average workweek of nonfarm factory workers has been also changed slightly. The reader will note small decreases in the remaining quarters of this year and the first quarter of 1981 and slight gains during the rest of that year when the two forecasts are compared.

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.8	97.3	97.8	98.9	98.0
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.5	93.9	94.4	95.6	94.6
Unemployment Rate	%	5.80	6.13	7.12	7.41	7.02	6.92

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.0	100.0	101.0	101.7	102.5	101.3
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.6	96.7	97.7	98.3	98.2	97.7
Unemployment Rate	%	6.92	6.61	6.51	6.48	6.35	6.49

	Previous Forecast:		Present Forecast:
	Quarters	Hours	Hours
1980:	1	40.1	40.1
	2	39.7	39.0
	3	38.8	38.2
	4	38.9	38.5
1981:	1	39.1	38.9
	2	39.4	39.7
	3	39.7	40.1
	4	40.2	40.3

Total unemployment increased in March to an adjusted 6.2 per cent up slightly from the February rate of 6.0 per cent. The increase in the number of unemployed was almost entirely among adult men. The Labor Department also reported a rise in the number of discouraged workers: those that went to work but have given up trying after meeting too much defeat.

Total employment in March declined by 0.3 per cent to an adjusted 97.7 million. The average workweek for nonfarm workers in March was 35.4 hours. For factory workers the average was 39.8 as compared to the February level of 40.0 hours.

1.4 HOUSING

(Table 04. on page 20)

This Institute's forecast for housing unit starts for 1980 remains bleak but hardly like stops rather than starts. No improvement is expected until 1981. A more vigorous upturn is expected in 1982.

This calculation depends on Assumption 1. on page 7 that the Administration will take steps within the next few months that will help the housing industry. KEDI considers the statements by the Administration to bring the housing industry to a "standstill" to be highly detrimental for the economy and NOT NECESSARY.

The data for March housing reflects a drastic decline. Housing starts fell by 21.8 per cent from the prior month on an adjusted basis. When the March, 1980, adjusted total is compared to the year-earlier figure, a 42.2 per cent drop is seen.

Single family housing starts were off by 23.3 per cent in March from the February level. Multifamily starts fell by 19.9.

Jay Janis, the Chairman of the Federal Home Loan Bank Board, forecasts that starts would decline to a rate of roughly 900,000 in the latter part of this year shortly before the March figures were released. After considering them, he revised his estimate for the year of around 1.1 million starts to "one million or even lower."

Even more gloomy is the forecast made by Kenneth Rosen of the University of California. His forecast was cut down to 850,000 starts for 1980. The National Association of Home Builder's changed its forecast for the year from over 1.3 million to about 1.0 million.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.680	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972=100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972=100	161.8	171.8	173.9	180.0	189.3	178.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.800	.738	.734	.750	.756
Multifamily Housing Starts	mil. units	.551	.466	.411	.421	.435	.433
Mobile Homes Shipments	thous units	283	259	246	269	251	256
Housing Permits Issued	mil. units	1.535	1.279	1.005	1.106	1.987	1.094
Construction Costs-Commerc.	1972=100	180.2	193.5	197.1	200.1	202.6	198.3
Construction Costs-Resident.	1972=100	178.8	192.1	196.0	199.6	207.0	198.9

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	.756	.678	.795	.908	.931	.828
Multifamily Housing Starts	mil. units	.433	.446	.489	.504	.528	.492
Mobile Homes Shipments	thous units	256	235	252	281	296	266
Housing Permits Issued	mil. units	1.094	1.021	1.103	1.191	1.217	1.133
Construction Costs-Commerc.	1972=100	198.3	211.5	217.7	222.4	230.5	220.5
Construction Costs-Resident.	1972=100	198.9	211.3	217.2	220.8	228.7	219.5

The KEDI forecast is for 1.250 million units in 1980, provided that aid is extended to builders by the Administration. This is a downward revision from the estimate in the March issue of 1.38 million starts.

There are some indications that the housing industry does not actually look quite so bad as many forecasters indicate. Housing permits issued are low, but they are still on a level that corresponds to yielding a total of 1.2 or 1.3 million units this year. Big builders are being hurt but some still are relatively optimistic. Some of them have expressed the view that they know people want to buy houses, and it is a matter of cutting profit margins and reducing financing costs in order to make a purchase possible.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS

(Table 05. on page 22)

At the present time, there are three proposals of the Federal Budget for fiscal 1981 (starting October 1, 1980): the President's revised budget released in March, the House version, and the Senate version. Although the third, or Senate version, differs more significantly when compared with the other two, all of them have a generally balanced budget in common. All hope that the United States will have a balanced budget. If so, it will be the first time in 12 years. The President's budget as it moves through the House already was changed some to a tentative House resolution

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.7	-11.2
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.3	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	15.0	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	26.0	24.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	240.4	250.7	259.2	263.1	253.4
Corporate Profit Tax Accruals	bil.$	78.5	83.4	84.1	90.5	94.2	88.1
Surpl./Deficit	bil.$	-11.2	-17.1	-12.1	-10.9	-14.8	-13.7
State and Local Governments:							
Income Taxes	bil.$	40.7	39.3	41.2	45.7	47.9	43.5
Corporate Profit Tax Accruals	bil.$	14.4	15.0	15.6	17.4	19.0	16.8
Surpl./Deficit	bil.$	24.7	15.2	16.1	17.5	18.0	16.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	253.4	279.2	286.4	289.9	296.7	288.1
Corporate Profit Tax Accruals	bil.$	88.1	98.7	107.1	116.4	126.5	112.2
Surpl./Deficit	bil.$	-13.7	-10.1	-9.6	-9.8	-10.2	-9.9
State and Local Governments:							
Income Taxes	bil.$	43.5	48.1	51.4	56.7	61.9	54.5
Corporate Profit Tax Accruals	bil.$	16.8	21.7	24.8	26.7	27.9	25.3
Surpl./Deficit	bil.$	16.7	18.4	20.1	22.0	24.1	21.2

which indicated spending of about $612 billion and revenues of about $614 billion.

This Institute's calculations have shown that such a budget would contribute immensly to the slowdown of economic growth in 1981. The assumption here is that the combined results of the anticipated Administration's measures to counter any recession along with the income tax break in 1981 would lead to a Federal budget deficit of around $10 billion. The forecast in this issue concerning government budgets has not been changed significantly in the local, state or federal areas.

1.6 INCOME
(Table 06. on page 24)

In March, personal income grew at a moderate pace reflecting the general slowdown that is in process. Personal income in March grew at an adjusted rate of 0.8 per cent. Private wages and salaries rose by 0.7 per cent while factory payrolls were up just a bit: 0.4. Personal interest income gained by 1.5 per cent, however.

The data in this KEDI forecast has been revised downward just a bit when compared with the previous forecast. This was due mainly to higher unemployment than was forecast earlier and the slowdown in projected increases in wage rates.

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2005.0	1924.2
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1683.1	1624.1
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.2	1459.5
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	143.8	144.6
Personal Saving	bil.$	72.0	79.2	85.9	70.3	57.5	73.2
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	224.1	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1924.2	2056.6	2098.7	2149.8	2206.5	2127.9
Personal Dispos. Income	bil.$	1624.1	1730.5	1772.5	1803.7	1859.6	1791.6
Compensation of Employees	bil.$	1459.5	1552.4	1583.3	1589.7	1700.2	1606.4
Corp. Profits After Tax	bil.$	144.6	150.2	151.6	153.0	161.5	154.1
Personal Saving	bil.$	73.2	58.9	61.4	68.7	71.3	65.1
Average Weekly Earnings	$	218.7	226.4	228.2	230.4	236.4	230.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2127.9	2280.6	2341.3	2391.6	2460.7	2368.6
Personal Dispos. Income	bil.$	1791.6	1911.4	1930.6	2060.3	2120.7	2005.8
Compensation of Employees	bil.$	1606.4	1800.9	1863.4	1921.5	2007.3	1898.3
Corp. Profits After Tax	bil.$	154.1	174.3	180.9	188.0	189.3	183.2
Personal Saving	bil.$	65.1	0.6	6.2	0.3	7.1	88.6
Average Weekly Earnings	$	230.4	240.5	250.4	255.6	258.9	251.3

The forecast here also shows slightly lower profits for corporations. Specifically this reflects the calculation for more of a decline in profits than the prior forecast here indicated in automobile, construction and the housing industries.

In March, spendable average weekly earnings for a worker with three dependents was up slightly to $201.62. But, the inflation adjusted earnings fell by 0.8 per cent. Average gross weekly pay of factory workers in March was at $280.59.

1.7 MONEY AND CREDIT

(Table 07. on page 27)

There are indications that the Federal Reserve may, at least temporarily, be easing credit and money instruments restraints. The credit-restraint program announced in mid-March was amended in early April to require lenders to give 30 days of notice before credit term changes can take effect. That at least gives some warning to the consumer as he or she gets "another day older and deeper in debt." The Board also allowed for more growth in consumer debt than it had in the original declaration.

The cost of borrowing for large firms dropped in late April. The federal funds rate went down below the 16 per cent range. It had been over 19 per cent a few weeks earlier.

The slowdown allows the Board to be less strict. However, caution is needed in order to keep up efforts to dent the inflation rate.

These measures have been taken because of the monetary and credit conditions which did improve quite a bit in recent weeks. For one thing, the growth of M1-A has slowed to an annual rate of just 4.1 per cent. That gives the Feds some time to relax the reins.

There are signs of consolidation in the bond market. This area now presents a brighter outlook for the rest of this year and for 1981. The Treasury Secretary predicted that the bond markets will shortly be restored to a good working condition. He noted that the federal government plans to raise only $2 billion in new funds in U.S. credit markets in fiscal 1981. That is a large drop from the $40 billion raised this way in the current fiscal year.

The KEDI projection shows a moderate increase in the money supply, M1-A: 6 per cent in 1980 and 7.1 per cent in 1981. That is in line with the expected growth in nominal GNP in '80 and in '81. Based on Assumption Number 3, that the Federal Reserve will ease monetary and credit conditions in summer of this year, it is anticipated here that there will be a recuperation of the mortgage market in the last quarter. Under the same assumption, the projection concerning the stock market (as measured by Standard and Poor's 500 average index)

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Currency+Demand Deposits	bil.$	352.8	358.4	361.7	365.4	369.7	363.8
Time Deposits, Adjusted	bil.$	1133.6	1422.3	1459.6	1488.5	1515.2	1471.4
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.2	298.2
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	363.8	376.1	380.2	388.4	396.8	385.4
Time Deposits, Adjusted	bil.$	1471.4	1576.3	1600.2	1618.5	1636.8	1608.0
Consumer Instal. Credit	bil.$	298.2	304.3	309.7	312.1	316.2	316.2
Commerc.and Ind. Loans at Banks	bil.$	265.7	278.7	280.4	282.3	289.9	289.9
Negotiable Cert.of Deposits	bil.$	115.6	120.1	129.9	138.6	142.8	142.8
Mortgages at S&L Assns.	bil.$	454.2	453.4	454.4	458.1	465.3	465.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	385.4	409.8	418.9	428.5	441.6	424.7
Time Deposits, Adjusted	bil.$	1608.0	1652.3	1702.5	1760.1	1800.2	1728.8
Consumer Instal. Credit	bil.$	316.2	326.8	330.9	340.6	351.2	351.2
Commerc.and Ind. Loans at Banks	bil.$	289.9	290.1	300.4	312.6	321.5	321.5
Negotiable Cert.of Deposits	bil.$	142.8	146.8	151.4	160.7	172.6	172.6
Mortgages at S&L Assn.	bil.$	465.3	470.6	477.9	488.7	492.4	492.4

does not show any ups or downs of significance this year or next.

In March, deposits were less than withdrawals at savings and loan associations, reversing two months of net gains. However, that net inflow was the weakest in a decade. In March, the net outflow of over $900 million showed the accelerated rate depositors were switching funds to higher yielding accounts.

1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 08. on page 30)

Recent declines in the short-term interest rates indicate that, at least for now, the March and early April peaks are over. A period of gradual decline is starting to take place.

The general consensus of analysts is that two factors have contributed to that decline: First, is the recession psychology. That contributed to the recent slide in Treasury bill rates. Secondly, expectations that monetary policy will have to be eased are also involved.

There are now some rather optimistic predictions about short-term interest rates. The Wall Street Journal reported that the more optimistic analysts feel that the prime rate could fall as low as 11 per cent or so by the end of the year. The rate on three-month Treasury bills could go as low as 9 or

10 per cent according to such experts.

The current brighter outlook gained strength when bond prices surged as a result of two developments: the cut in the prime rate by some banks and a change in the forecast of Henry Kaufman of Salomon Brothers from even more hikes in the interest rates to the possibility of lower rates. (It seems when Kaufman talks, bond market people listen.)

KEDI is not as optimistic as analysts just mentioned. It is true that a gradual decline in interest rates is also forecast here, but not that fast. The main reason why the short-term interest rates will be prevented from falling rapidly are conditions in international financial markets, and policies of foreign central banks.

High U.S. interest rates and lower rates in the rest of the world played a decisive role in keeping the international value of the dollar from declining further. In the middle of April, when the U.S. short-term interest rates started to drop more significantly, the foreign central banks followed that lead. There are signs, however, that any further declines in this country, will be followed only partially by foreign central banks if at all. The main reason is that inflation in many countries is accelerating or not declining and high interest rates are part of those governments important tools to curb it.

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	12.21	10.60
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.58	9.78
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.65	9.56
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	105.30	102.83

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	15.07	13.62	12.02	11.87	13.15
Prime Rate	%	12.76	17.56	18.58	18.01	17.26	17.85
Mortgage Rate, New Homes	%	10.60	12.89	13.52	13.27	42.97	13.16
Aaa Bonds Rate	%	9.78	11.72	13.41	13.05	12.48	13.67
Long Term Govt. Bonds Yield	%	9.56	12.69	13.04	12.64	12.41	12.70
Standard & Poor's 500 Average	1941-43=100	102.83	116.21	108.72	106.51	109.24	110.17

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	13.15	12.05	11.47	11.06	10.25	11.21
Prime Rate	%	17.85	17.15	17.02	16.36	15.84	16.59
Mortgage Rate, New Homes	%	13.16	12.71	12.43	12.01	11.72	12.22
Aaa Bonds Rate	%	13.67	12.55	12.08	11.75	10.48	11.72
Long Term Govt. Bonds Yield	%	12.70	12.11	12.09	11.89	11.73	11.96
Standard & Poor's 500 Average	1941-43=100	110.17	110.16	115.72	117.41	116.96	115.06

If U.S. short-term interest rates fall below the general world level, the value of the dollar abroad will be affected.

Considering the grim outlook for U.S. foreign trade, such a decrease would have a negative effect on our economy and result in contributing to the increase in our inflation rate.

A comparison of present levels of short-term rates and those rates expected by KEDI at the end of this year are given here.

	Present level	End of 1980
Prime rate	18.5%	16.5 - 17.0%
3 mo. Treasury bills rate	16.5%	11.8 - 12.0%

Regarding the other rates, it is anticipated here that the long-term government bond yield will not change much more from the present level until about the end of this year, but start to decline throughout 1980.

Mortgage rates will drop by the end of the year from the present rate of 14.5 per cent to the 13.2 per cent range. The calculation by this Institute is for such rates to be in the 11.6 per cent range at the end of 1981.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, personal income for the first quarter 1980 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the U.S. Department of Commerce, April, 1980 estimate. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond Va., February 1980. Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

U.S. PERSONAL INCOME

(First Quarter 1980, bil. $, SAAR)

Actual: 2056.6

Forecaster	Page in Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	1991.9	-3.1
The First National Bank of Chicago	22	2032.0	-1.2
University of California	26	2017.5	-2.0
Cyrus J. Lawrence, Inc.	27	2021.1	-1.7
Bankers Trust Company	28	2028.9	-1.4
Goldman Sachs	29	2045.0	- .1
The Fidelity Bank	30	2050.4	- .3
KEDI	31	2054.0	.0
Data Resources, Inc.	33	2043.2	- .1
Morgan Guaranty Trust Co.	35	2032.9	-1.2

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Kent, Ohio 44242/U.S.A.

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Vol. 5, No. 12, May 30, 1980

KEDI ECONOMIC SURVEY

MAY ISSUE

May 30, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 058000484
KEDI May 30, 1980

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

In the last issue of the KEDI survey the following viewpoint was expressed: If the Administration does not act in May, June, or July to help the economy, then the government inspired recession that ensues will become the worst economic disaster since the Second World War.

In May, the Administration did take some action. In the economic poker game being played in Washington, the partial step by the Federal Reserve did ease the credit restraints substantially for consumers and businesses. That action was suggested by KEDI several months ago. It is certainly better late than never.

However, it is important to keep in mind that help must come from the money and credit side and from the fiscal side. The budgetary policy should follow the lead of the monetary and credit policies. Without the addition of fiscal measures, the Administration's aid to the economy will be incomplete and will unnecessarily prolong the downturn which is a bit sharper at present than was anticipated by this Institute.

During the first part of this year, the concern for balancing the Federal budget seemed to preclude any real fiscal first aid to the economy. During March and April cutting government spending to match revenues was of major interest. At last, there are indications that a more balanced perspective is taking hold. On May 31, in Columbus, Ohio, President Carter said, "We've got serious recession prospects, steeper than we expected." He went on to say that there are already programs on the books that can be strengthened to provide some assistance for such areas of concern as youth unemployment and home construction.

Carter has frequently spoken of the help that the Administration would provide should economic conditions become severe. In the middle of May, he assured automobile makers that there was concern for the plight of that industry. At that time, no specific aid was offered. It was stated that there would be a review of problems created by government regulation and credit policies. Another meeting with automobile industry leaders was planned for around the end of June.

The assumption by this Institute is that easing of the credit restraints will continue. However, there will not be any more substantial declines in the interest rates. It is expected here that the prime rate will drop to the 12-13 per cent range by the end of the year. No further declines are expected after that time.

At present, the interest rates overseas are already ABOVE the American rate. Any further drop in these rates will have disastrous effects on the international value of the dollar. By late May, the United States dollar declined to the low level it was at one and one-half years ago. Our lowering interest rates together with the higher rates in England contributed to the British pound going up in terms of our currency to $2.37 during the last week of May. (The thin silver lining of that relationship may be in a rise in the number of English people coming over here to spend money and visit coastal areas to got out in the midday sun.)

In summary, the position of this Institute has been that the Administration has to adopt FISCAL measures along with money and credit measures. Such measures will assure that the current downturn will be of a short duration. If there is any recession, such measures will cut it short.

Calculations here show that roughly $10 billion in federal help to the economy in the critical areas of housing, cars, and employment would be adequate to prevent any more decline. That amount of spending is not really all deficit spending if an overview is taken which includes state and local budgets where there are budget surpluses totalling roughly $20 billion. Such Federal spending would contribute to the beginning of some bouncing back for the latter part of this year and the first part of 1981.

Treasury Secretary G. William Miller expressed the cheerful view that the current declining quarter will be followed by a flat quarter. This is considered an "L" shaped economic picture. Improvement will begin in the last quarter of the year.

That scenario is the one that KEDI predicts will become reality as long as there is fiscal action by the Administration.

KEDI forecast based on the Administration's fiscal action, is highlighted in Table 1.0 on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72 $	1399.2	1431.7	1433.9	1749.2
Index of Industrial Production	1967 =100	145.2	152.2	150.0	178.9
Capacity Utilization	%	84.3	85.7	81.4	87.2
Unemployment Rate	%	6.0	5.9	7.4	6.1
Private Housing Starts	mil. units	2.020	1.721	1.175	1.958
Car Sales	mil. units	11.3	10.8	8.0	13.1
Implicit GNP Price Deflator	1972 =100	152.1	165.5	181.3	281.6
Consumer Price Index	1967 =100	195.3	217.5	246.9	394.1
Producer Price Index	1967 =100	209.3	236.2	271.9	410.2
Federal Deficit	bil.$	-27.7	-11.2	-20.5	-13.6
Personal Income	bil.$	1717.4	1924.2	2110.8	3341.5
Prime Rate	%	9.06	12.76	11.83	10.12
Mortgage Rate	%	9.30	10.60	12.77	9.98
Currency plus Demand Deposits	bil.$	326.6	363.8	374.6	629.3
Commercial and Industrial Loans	bil.$	230.9	265.7	288.5	501.6

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the April,1980, forecasts, no substantial changes take place. The forecast data for the year 1980 and a part of 1981, have been lowered in real terms. The revised forecast presented here reflects rather the impact of the downturn in economic activity in April-May, than the change in Assumptions.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. No more tightening in fiscal and monetary policies will occur. In Summer, the Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvest are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

West Germany	3.0%	2.8%	3.1%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

1.1 REAL GROWTH

(Table 01. on page 11)

This year started out with less economic energy than 1979. However, there was some real growth during the first quarter.

The economic news that is developing during the current quarter does not show growth. However, it is not as bad as some had predicted earlier. This Institute expects the approximately 5% decline in real GNP will take place, contrary to some forecasters who expect the 8% drop.

Looking at the negative news, the U.S. automobile industry leads in showing a decline. Sales of U.S. made cars fell by 42 per cent in early May from the year earlier figure. It was the lowest rate of sales in 22 years. Such a large drop had not been anticipated by KEDI.

It was announced that 15 U.S. plants producing cars and light trucks will be closed for one to two weeks in early June in an effort to make a dent in inventories. That action will put about 32,000 more employees out of work.

In the middle of May, weekly production by steel companies went down to a level that had not been reached in the past two years. The industry was operating below 80 per cent capacity in the middle of May. The declines in production reflect the efforts by steelmakers to get production in line with demand

and prevent the accumulation of huge inventories. Housing permits issued in April also fell. When compared to March, these were down by 14.2 per cent.

Industrial production went down by a seasonally adjusted 1.9 per cent in April. This decline was led by the decreased output of car parts and construction supplies, but indications are, that downturn is beginning to spread over a large number of industries.

The Labor Department released their revised report on productivity. It showed that there was a decline in this area during the first quarter when productivity fell by a seasonally adjusted annual rate of 0.6 per cent. That is the fifth quarter of decline in private business productivity.

Machine tool orders were down in April by 22 per cent from the March level. When allowance is made for price increases, April orders of this year are roughly 25 per cent below the year-earlier figure. Industry analysts point to the low operating rate of the nation's factories, about 81 per cent, as an indicator of further declines in machine tool orders. However, there are those in that industry that see business as being fairly good during the rest of the year due to the balancing effect of the strength in the energy industry, aircraft manufacturers, and electronic and defense production.

There is other news that is of a positive nature. First, a sharp drop in the demand for oil plus a lowering in general in demand for imports narrowed the trade gap in April. That gap was the smallest it had been for three years. The difference between exports and imports in March produced a seasonally adjusted deficit of about $3.2 billion. That narrowed to about $1.9 billion in April. U.S. imports were down in April by 6.2 per cent from the March level. Exports went down by 0.4 per cent in that period. Our importing of oil in volume terms fell by over 18 per cent. The slowing of the economy is, of course, involved in the benefit of a better trade picture.

In terms of car sales, there will likely be a slowing of the decline reflected in late May and early June figures due to the reinstituted direct rebate offers to customers. Also, in the auto industry, there are some workers that are putting in overtime. They are the people building small cars at some U.S. plants.

The housing situation is not as bad as some indicated it would be. Housing starts declined in April by about 2 per cent using seasonally adjusted annual rates. Such starts were at a seasonally adjusted level of 1,050 million units.

Rather than being in a deep recession, the negative and positive news considered together present an economy that is near a crossroad. If some effective fiscal measures are adopted, the downturn will be short and mild. Calculations show, that such measures should be adopted in a short time, i.e. this quarter before it will be too late. KEDI's pessimistic alternative of the 1980-1982 forecast shows, that unless a fiscal measure is taken, the drop in the economic activity would represent a drop in real 1980 GNP around 8%.

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1440.7	1431.7
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.4	84.6	85.7
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.8	10.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1442.6	1430.1	1430.3	1431.6	1433.9
Index of Indust. Production	1967=100	152.2	152.1	149.6	149.0	149.2	150.0
Unemployment Rate	%	5.9	6.1	7.6	8.0	7.8	7.4
Capacity Utilization Rate	%	85.7	85.1	81.0	79.5	80.1	81.4
Private Housing Starts	mil. units	1.721	1.266	1.109	1.133	1.190	1.175
Car sales	mil. units	10.8	9.5	7.4	7.0	7.9	8.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1433.9	1442.7	1450.2	1457.8	1470.6	1455.3
Index of Indust. Production	1967=100	150.0	151.2	153.2	154.2	157.8	154.1
Unemployment Rate	%	7.4	7.6	7.1	7.0	6.5	7.0
Capacity Utilization Rate	%	81.4	82.3	83.1	85.7	86.8	84.5
Private Housing Starts	mil. units	1.175	1.110	1.274	1.390	1.451	1.306
Car sales	mil. units	8.0	9.8	10.4	10.9	11.1	13.3

1.2 PRICES

(Table 02. on page 15)

There has been a revision here in the forecast. Due to the sharper than expected downturn in economy in the last two months and expected continuation of sluggish pace, the forecast of the general price increase has been reduced somewhat.

		Forecast of April Issue	Forecast of this issue
Consumer Price Index	1980 average	247.3	246.9
GNP Price Deflator	1980 average	182.8	182.3

The revised forecast was brought about by two main factors:

1. The assumption concerning the introduction of the import surcharge has been dropped. It had been assumed that such a surcharge would take effect in June of this year. Now the indications are that it will be imposed in 1981.
2. There has been a revision in prices of some agricultural products.

The Agriculture Department reported that the number of cattle marketed in April was lower than had been expected. Also, the number of young animals placed on feedlots went down from the level of a year earlier. Cattle futures dropped in response.

There has been an excess amount of pork available. Future prices for some frozen pork has been declining.

The large supply of some food items, such as pork, chicken, turkeys and dairy products should mean good buys (relatively speaking) for consumers in June. However, as demand and supply come more into line, prices will begin to move upward again in the latter part of this year.

In April, consumer prices went up at an annual rate of 10.8 per cent. That is a lower rate of gain. The slowdown resulted from the lowering of home mortgage rates, easing of energy price gains, and lower rates of gain in food prices.

That April slowdown in inflation is good news when it is compared to the higher rates in the first three months of this year. However, the forecast for late 1980 and for 1981 remains cloudy. KEDI expects the December rate will be 12.2 per cent.

The chairman of the Council on Wage and Price Stability, Alfred Kahn also indicated that the current slowdown is of a temporary nature. The forecast by KEDI supports this view.

The price of energy will continue to play a major role in the increases in the cost of living. This Institute maintains its Assumption 1. on page 6 . The average price of oil on the international market will keep increasing. In 1980 it will go up to the $34 range. In 1981 it will be in the $40 range and in 1982 $46 will be the price we have to pay.

Recent developments in the price strategy of the OPEC nations confirm that stable oil prices are most unlikely. Saudi Arabia recently increased its price for crude oil by about 8 per cent.

This was described as an effort to restore pricing unity to OPEC as Saudi oil was cheaper than other members. The group next meets during the second week of June. It is not likely that any pricing unity will come out of that meeting. The Iranian oil minister indicated that a price of $40 per barrel by the end of this year was quite possible.

Between March of 1979 and March of 1980 the average total earnings of American families went up by 8 per cent to $395 a week. Unfortunately, that gain was wiped out--and then some--by the 14 per cent jump in that time period in consumer prices.

The National Center for Economic Alternatives has a Basic Necessities Inflation Index. It includes the price of energy, housing, food and medical care. In the first quarter of this year, that index shot up by 23.7 per cent on an annual basis. The four items used in the index account for about two-thirds of the average family budget. Gas and heating oil were the biggest contributors to the rise. The gain in these was 64.8 per cent in the first quarter. (Is it any wonder that wood burning stoves and thermal underwear are making a comeback.)

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	195.3	207.0	214.1	221.1	227.7	217.5
Producer Price Index, NSA	1967= 100	209.3	227.2	231.7	238.8	247.2	236.2
Implicit GNP Price Deflator	1972= 100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	217.5	236.5	244.4	250.2	256.4	246.9
Producer Price Index, NSA	1967= 100	236.2	258.7	266.9	276.0	285.9	271.9
Implicit GNP Price Deflator	1972= 100	165.5	174.4	179.0	183.1	188.5	181.3
Gross National Product	bil.$	2369.5	2516.1	2560.0	2618.9	2700.5	2598.9
Personal Cons. Expenditures	bil.$	1510.0	1628.7	1618.7	1627.4	1682.7	1636.9
Gross Private Dom. Investment	bil.$	387.3	384.0	396.5	410.8	420.5	403.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	246.9	260.6	268.5	275.4	279.8	271.1
Producer Price Index, NSA	1967= 100	271.9	291.9	298.5	309.6	316.4	304.0
Implicit GNP Price Deflator	1972= 100	181.3	191.6	196.1	201.7	205.8	199.1
Gross National Product	bil.$	2598.9	2764.2	2843.8	2940.4	3026.4	2893.7
Personal Cons. Expenditures	bil.$	1636.9	1784.1	1830.2	1890.7	1994.1	1874.8
Gross Private Dom. Investment	bil.$	403.0	440.5	460.1	490.4	515.6	476.7

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 18)

The employment forecast has been revised. The reader can see the calculations that show substantial revisions in the unemployment rates for this year and next year. The KEDI projection for 1980 through 1985 unemployment is as follows:

	1980	1981	1982	1983	1984	1985
Unemployment Rate % Revised	7.38	7.04	6.22	6.01	6.38	6.21
Unemployment Rate Previous forecast	6.92	6.49	6.12	5.89	6.24	6.13

The revisions is brought about by the economic conditions that were discussed in the Overview section of this issue. The downturn is now viewed as being deeper than had been anticipated in previous issues.

The forecast shows that unemployment will keep on increasing in the next months. Unemployment in May is expected to be at a 7.61 per cent level. The figure for June is 8.08. This is dramatically higher than the average rate for the first quarter of this year which was 6.13. It is also above the April rate of 6.96.

The peak for unemployment this year is expected to be reached in August and September. The forecast shows a rate of 8.51 per cent for August and a rate of 8.64 for September. Gradual declines are expected in subsequent months.

Involved in the calculation for the unemployment rate is Assumption 3 on page 6 . It is assumed the Government will take fiscal measures that will stimulate the economy.

The Administration has been saying unemployment would not go above 7.2 per cent. However, there are economists that see a rate of up to 9 per cent as likely to be reached. That is too pessimistic. Such a rate would indicate a deep recession. This Institute does not anticipate such an occurrence. Employment figures here have been revised downward, but they have not plummeted.

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.2	106.0	105.1
Employed	mil.	97.2	97.8	96.7	96.8	97.7	97.3
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.5	93.3	93.4	94.4	93.9
Unemployment Rate	%	5.80	6.13	7.55	8.01	7.81	7.38

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.3	108.0	109.1	107.8
Employed	mil.	97.3	98.5	99.6	100.5	102.0	100.2
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	93.9	95.2	96.3	97.1	98.7	96.9
Unemployment Rate	%	7.38	7.56	7.14	6.96	6.48	7.04

1.4 HOUSING

(Table 04. on page 21)

The KEDI forecast of housing starts remains basically unchanged. Housing permits issued this year are low as compared to last year. However, it is still the estimate of this Institute that they will yield a total of 1.2 to 1.3 million units in 1980.

There is support for this view. First, the April rate, a seasonally adjusted rate of 1,019 million units, was better than many analysts had predicted. Still, that total represented a decline of 2.1 per cent from the adjusted March level, and a drop of over 41 per cent from the level in April of 1979.

Secondly, declines in mortgate rates will contribute to the revival of housing activity. In the last two months, the rate for a mortgage has dropped by 2 percentage points to 12.5. The chief economist for the National Association of Home Builders, Michael Sumichrast, cited that rate change and the April rate of housing starts as having led him to revise the Association's estimate of starts up from 900,000 to 1.05 million for 1980. As can be seen, the projection by this Institute still remains above that revised figure.

The more negative side of the housing news includes the housing permits. Between March and April, there were 14.2 per cent less permits issued. When April, 1980 is compared to the figure for one year earlier, a drop of 47.3 per cent in permits is seen. Using the yearly comparison, permits for single family homes were down 54.9 per cent and multi-family permits declined by a lesser rate of 30.8 per cent. This Institute projects the next two months will continue to show declines in this area, but there will be an end to the decline then and a plateau maintained for the rest of the year.

Looking at the housing industry as reflected in the stock market, it is possible to see a bright side: There will be some bargains as housing-related companies earnings fall and the share price drops more before any rally begins.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.680	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972= 100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972= 100	161.8	171.8	173.9	180.0	189.3	178.8
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.800	.689	.704	.758	.738
Multifamily Housing Starts	mil. units	.551	.466	.420	.429	.432	.437
Mobile Homes Shipments	thous units	283	259	238	251	248	249
Housing Permits Issued	mil. units	1.535	1.279	.971	.992	1.012	1.064
Construction Costs-Commerc.	1972= 100	180.2	193.5	197.0	199.4	202.1	198.0
Construction Costs-Resident.	1972= 100	178.8	192.1	196.1	199.2	206.6	198.5
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	.738	.670	.792	.894	.921	.819
Multifamily Housing Starts	mil. units	.437	.440	.482	.496	.530	.487
Mobile Homes Shipments	thous units	249	230	253	287	298	267
Housing Permits Issued	mil. units	1.064	1.011	1.115	1.198	1.214	1.135
Construction Costs-Commerc.	1972= 100	198.0	210.6	217.0	221.9	230.0	219.9
Construction Costs-Resident.	1972= 100	198.5	210.8	216.7	219.5	227.3	218.6

5.0 BUDGETS

(Table 05. on page 23)

The White House and Congress continue to debate over the budget proposal for fiscal 1981. At the end of May, the House rejected a $613.3 billion budget. On paper, that budget actually showed a surplus of $500 million--small potatoes at these lofty levels of money talks. The aim of a balanced budget is a noble one for governments in better times. It is hardly attainable or practical given current economic conditions. It is the projection of this Institute that that goal will be abandoned. The forecast here of a $10 billion deficit in the fiscal 1981 Federal Budget remains unchanged.

It is probable that Congress will approve a balanced budget. However, the assumption here is that it will not last for the entire fiscal year because the Administration will likely adopt fiscal measures to give assistance to the ailing economy.

The KEDI projection for government budgets at the state and local level has been revised in this issue. The changes are small and show some decline in the surpluses. The revision has been made to reflect unemployment payments that are going to be higher than had been expected. Also, the new estimates reflect receipts in corporate and indirect taxes which will be somewhat lower than had been anticipated here in recent months.

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.7	-11.2
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.3	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	15.0	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	26.0	24.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	240.5	248.9	254.0	260.5	251.0
Corporate Profit Tax Accruals	bil.$	78.5	86.2	82.0	88.3	90.6	86.8
Surpl./Deficit	bil.$	-11.2	-21.6	-20.7	-20.5	-19.1	-20.5
State and Local Governments:							
Income Taxes	bil.$	40.7	39.7	40.3	44.1	43.6	41.9
Corporate Profit Tax Accruals	bil.$	14.4	15.5	15.1	16.8	18.7	16.5
Surpl./Deficit	bil.$	24.7	23.8	20.4	16.8	19.8	20.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	251.0	275.1	284.3	287.6	294.5	285.4
Corporate Profit Tax Accruals	bil.$	86.8	97.4	105.2	115.0	125.3	110.7
Surpl./Deficit	bil.$	-20.5	-14.4	-12.1	-13.2	-14.6	-13.6
State and Local Governments:							
Income Taxes	bil.$	41.9	47.5	50.8	56.2	61.7	54.1
Corporate Profit Tax Accruals	bil.$	16.5	20.8	24.1	26.1	27.2	24.6
Surpl./Deficit	bil.$	20.2	18.6	20.0	22.1	24.2	21.2

1.6 INCOME

(Table 06. on page 26)

The projection for income has been revised downward for reasons stated in earlier sections. The main adjustments here are for indicators of personal income and personal disposable income. On the other hand, the new forecast only slightly affects the overall corporate profit estimates. Within corporate profits, there are significant differences that show up in the detailed forecast.

Not unexpectedly, topping the list of profit makers is the petroleum industry. This is followed by chemicals, electrical machinery, defense industries, paper, textile, nonferrous metals, airplanes, food and service industries.

If 1980 is compared to 1979, no substantial changes in profits are expected in non-electrical machinery, aerospace, transportation, and banking.

Profit declines in the automobile, construction, housing, steel, rubber, and lumber industries are going to be larger than KEDI estimates of recent months had indicated.

There is some good news about the personal savings rate. The forecast shows that the negative trend in this area will begin to reverse in the latter half of this year. Such savings will begin to move back to more normal levels.

Wages and salaries did go up in the first quarter by 2.4 per cent from the prior quarter. The Bureau of Labor Statistics new employment cost index was changed to include overtime pay and most fringe benefits. That measure produced a quarterly gain in compensation of 2.7 per cent. These figures are, of course, not adjusted for inflation as the reader knows. This was covered in section 1.2 of this issue. Getting a pay raise for most people in reality has been a matter of trying but not succeeding in beating the gains in the cost of living. In April, inflation adjusted gross average weekly earnings declined by 1.2 per cent.

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2005.0	1924.2
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1683.1	1624.1
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.2	1459.5
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	148.8	144.6
Personal Saving	bil.$	72.0	79.2	85.9	70.3	57.5	73.2
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	224.1	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1924.2	2057.2	2080.7	2120.1	2485.2	2110.8
Personal Dispos. Income	bil.$	1624.1	173612	1759.3	1789.7	1829.5	1778.7
Compensation of Employees	bil.$	1459.5	1554.6	1560.2	1571.7	1659.7	1586.6
Corp. Profits After Tax	bil.$	144.6	155.5	155.0	152.9	159.7	155.8
Personal Saving	bil.$	73.2	64.2	68.4	75.7	79.3	71.9
Average Weekly Earnings	$	218.7	226.0	227.1	228.3	231.2	228.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2110.8	2260.6	2321.8	2381.5	2454.3	2354.6
Personal Dispos. Income	bil.$	1778.7	1900.3	1931.8	2071.6	2110.9	2003.7
Compensation of Employees	bil.$	1586.6	1780.4	1852.6	1910.6	1998.7	1885.6
Corp. Profits After Tax	bil.$	155.8	168.1	175.6	183.1	186.7	178.4
Personal Saving	bil.$	71.9	81.6	86.4	90.5	97.2	88.9
Average Weekly Earnings	$	228.2	236.4	243.5	250.8	252.4	245.8

1.7 MONEY AND CREDIT

(Table 07. on page 29)

The forecast for the growth of the money supply, M1-A, during 1980 shows a growth rate of 3 per cent over the previous year. Such a rate of growth is well below the Federal Reserve target of 4.5 per cent growth in the first half of this year and a 5 per cent gain in the remainder of the year. Until the middle of May, the growth rate of the money supply had fallen at an annual rate of 2 per cent. The projection by KEDI shows that the third quarter will be flat. The fourth quarter will show an increase.

The forecast concerning demand for commercial and industrial loans indicates improvement to come. It is expected that the volume of loans will stop shrinking during the second quarter. In the six weeks ending in mid-May, loans at leading banks dropped by $4.6 billion to $153.5 billion.

Other views on the future of loan demand differ from KEDI. Some have expressed the view that loans will continue downward putting fierce competitive pressure on banks. Other bankers view the loan demand scene as being flat for the rest of the year. There are also those that see continued shrinkage of loan demand during 1980. None of these views are agreed with here.

As far as consumer credit is concerned, the reader is aware of the restrictions the Federal Reserve set on March 14. That contributed to what is seen as a three month decline by this Institute. After June it is projected here that there will be slight and gradual increases in consumer credit. The Federal Reserve restrictions were UNNECESSARILY harsh.

The Treasury Secretary recently indicated that consumers had done their part in cutting credit purchases. He was giving the consumer his okay to spend more normally. Perhaps he should have said openly that the whole credit crunch was a mistake, but that would have been asking too much of the bureaucracy.

What this amounts to is the fact that the government's action to point the finger at all of us as responsible for inflation was taken literally. We cut credit buying so much that retail sales were excessively damaged and the economic downturn was given some added momentum. It is not felt here that a thank you is in order for the campaign against credit cards. The campaign should have addressed itself to the government's own monetary and fiscal policies as a prime target.

TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Currency+Demand Deposits	bil.$	352.8	358.4	361.7	365.4	369.7	363.8
Time Deposits, Adjusted	bil.$	580.2	1422.3	1459.6	1488.5	1515.2	1471.4
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.2	298.2
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	363.8	376.1	362.4	372.8	386.9	374.6
Time Deposits, Adjusted	bil.$	1471.4	1576.3	1592.4	1618.1	1640.3	1606.8
Consumer Instal. Credit	bil.$	298.2	304.3	305.2	310.1	317.0	317.0
Commerc.and Ind. Loans at Banks	bil.$	265.7	278.7	276.7	282.9	288.5	288.5
Negotiable Cert.of Deposits	bil.$	115.6	120.1	130.5	139.1	144.3	144.3
Mortgages at S&L Assns.	bil.$	454.2	453.4	454.5	457.2	464.1	464.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	374.6	396.2	405.1	414.2	424.7	410.1
Time Deposits, Adjusted	bil.$	1606.8	1650.1	1708.3	1762.4	1802.1	1730.7
Consumer Instal. Credit	bil.$	317.0	327.2	332.4	344.1	353.1	353.1
Commerc.and Ind. Loans at Banks	bil.$	288.5	292.1	304.5	316.1	327.8	327.8
Negotiable Cert.of Deposits	bil.$	144.3	149.2	156.3	166.8	179.2	179.2
Mortgages at S&L Assn.	bil.$	464.1	478.9	485.6	499.3	504.6	504.6

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 08. on page 32.)

Due to the recent cuts in interest rates by the Federal Reserve, and actions by other Government agencies, the forecast here concerning such rates has been lowered substantially. Some of the recent developments are as follows: The Federal Reserve discount rate was reduced to 12 per cent in late May.

More large banks cut their prime rate to 14 per cent in the last days of May. This undercut the fees of other banks. More banks will follow suit in the competition for customers.

Some banks also reduced their broker loan rate along with their lowering of their prime rate. (This is the fee charged to securities firms for loans that are backed by stocks.)

In mid-May the ceiling on mortgage rates was cut significantly. A whopping 1.5 percentage points was cut from the rate bringing it to the 11.5 per cent level for single-family homes insured by the FHA or VA. The Secretary of Housing and Urban Development said that the new rate will enable rougly 3.5 million more households to qualify for a mortgage on a $60,000 house.

Another change was the reduction in the interest ceiling for financing mobile homes or property improvements. This rate was cut from 18 to 16.5 per cent.

There is a drawback to the new lower interest rates. It shows up when the U.S.A. prime rate of 14 per cent and other related rates are compared to rates in other countries; Great Britain, France, Japan, and Canada, for instance. Our rates are getting below their levels.

If the Federal Reserve policy of chipping away at the interest rates is continually pursued, it will undermine the international position of the dollar even more. That will lead to another spiral in the gains in prices of exports and imports. It will also contribute to the rate of inflation in general. It is hardly likely that Japan, Canada, and European countries will follow the lead and reduce their interest rates. Hence, the gap between the rates here and in other countries will widen.

The KEDI projections for United States interest rates show them as stabilizing in the second part of this year after some more decreases during the next few months. (See Table 08. on page 32.)

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	12.21	10.60
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.58	9.78
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.65	9.56
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	105.30	102.83

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	15.07	10.06	9.87	10.14	11.29
Prime Rate	%	12.76	17.56	15.41	14.28	12.86	11.83
Mortgage Rate, New Homes	%	10.60	12.89	13.52	12.51	12.14	12.77
Aaa Bonds Rate	%	9.78	11.72	12.06	11.34	11.02	11.54
Long Term Govt. Bonds Yield	%	9.56	12.69	12.92	12.58	12.14	12.58
Standard & Poor's 500 Average	1941-43=100	102.83	116.21	115.30	110.42	112.31	113.50

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	13.15	11.26	11.31	11.12	10.05	10.94
Prime Rate	%	17.85	12.43	12.65	12.14	11.75	12.25
Mortgage Rate, New Homes	%	13.16	11.06	10.85	10.54	10.23	10.67
Aaa Bonds Rate	%	13.67	10.04	10.67	10.98	11.03	10.68
Long Term Govt. Bonds Yield	%	12.70	11.63	11.25	11.14	10.96	11.25
Standard & Poor's 500 Average	1941-43=100	110.17	114.51	117.34	115.26	113.28	115.09

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, car sales for the first quarter 1980 have been selected for comparison. Actual data are taken from the U.S. Department of Commerce, April, 1980 estimate. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond Va., February 1980, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

U.S. CAR SALES

(First Quarter 1980,mil.units,SAAR)

Actual: 9.5

	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	10.1	+6.3
Philadelphia National Bank	25	8.8	-7.4
University of California	26	8.9	-6.3
KEDI	31	9.4	- .1
Data Resources	33	9.5	.0
Equitable LIfe Assurance	34	9.4	- .1

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Vol. 6, No. 1, June 30, 1980

KEDI ECONOMIC SURVEY

JUNE ISSUE

June 30, 1980

President: Vladimir J. Simunek

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Editor: Diane L. Lewis

Publication No. 068000494
KEDI June 30, 1980

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

At the present time, there is no consensus among forecasters on the duration or the depth of the current downturn in the economy. Some expect the downturn will cease by the end of this year. Others see it going on through early 1981.

Robert Eggert's survey of major forecasters revealed that the overall average of these predictions yield a GNP (inflation adjusted) declining at an adjusted annual rate of 7 per cent during this quarter from the prior one. The average decline predicted in the third quarter was 4.4 per cent, and in the fourth, it was 1.2 per cent. During the first half of 1981, some growth is expected but it is seen as being far less robust than in past recoveries. The first quarter of 1981 is seen as being in the 8.5 per cent unemployment range. (It is felt at KEDI that it will not be that high.) Some of those surveyed expect it to reach 10 per cent. This certainly qualifies as being pessimistic. Considering real final sales, the view that they will be the worst of any downturn in the postwar period is not uncommon.

Not being too secure in their predictions, some now offer alternative forecasts. Each of these has certain probabilities connected to it. As an illustration, Data Resources, Inc. has come up with four different forecasts. The probabilities included range all the way from 10 to 50 per cent. That certainly covers all bases. One prediction or probability range is bound to be correct. Such techniques are not viewed here as being valid forecasts. They do not provide any real information. Such a shotgun approach is just hedging. If a person goes to a horse race and bets on all the horses in one race, one of those bets will pay off.

Treasury Secretary Miller views the current decline as easing. By the end of the year, he expects signs of recovery. Labor Secretary Marshall expressed a gloomy view of the unemployment situation. Like some of the forecasters surveyed by Mr. Eggert, he sees the jobless rate as being possibly as high as 8.5 per cent in the first quarter of 1981.

What is the outlook of KEDI? It is expected here that the downturn will last until the third quarter. That quarter will be close to being flat as compared to the second quarter. Compared to some forecasters, that is a bright prospect. The last quarter of the year is seen here in a fairly sunny light. An upturn will start, but it will be mild during the first six months of 1981. In the latter part of that year, the upturn will gain momentum, and faster growth will continue during 1982.

If this current forecast is compared with the KEDI forecast of last month, a somewhat deeper and longer lasting decline can be seen. The main reason for this is the abandonment of the assumption of the Administration's fiscal aid to the economy during this summer. At the present time, such fiscal aid is not likely to take place in 1980. The new forecast by this Institute shows a deeper slump in the third quarter, and a milder gain in the fourth quarter than was presented in last month's issue.

The recently approved Federal aid to state and local governments is a step in the right direction. However, the amount, $0.5 billion, is not large enough to significantly alter the overall performance of the economy.

KEDI now assumes that a larger tax cut, of at least $30 billion, will take effect in 1981. There are definite indications that the Administration has abandoned its publicized goal of a balanced budget.

Courtenay Slater of the Commerce Department, has said that a tax cut is likely next year due to the rising tax burdens that inflation has brought. A tax cut of $18 billion would be needed just to offset the Social Security tax increases and the taxes that have resulted from inflation pushed incomes being taxed at higher rates. The ratio of total personal taxes to personal incomes is estimated at 21.9 per cent for 1980, and 22.7 per cent for 1981 under current laws. According to the Commerce Department, a tax cut of about $36 billion would be needed to return that ratio to the 1978 level of 21 per cent. (And those weren't even the good old days.) Such a cut would be just what the doctor ordered. However, it is not realistic to expect Administration approval of the cost of lowering taxes to the 1978 level just cited.

Around the middle of June, President Carter indicated he was considering tax cuts and more spending if the economy got worse later this year. He ruled out any tax cut this year. He did not rule out action in 1980 that could take effect next year.

The chairman of the Council of Wage and Price Stability, Alfred Kahn, said that a tax cut is inevitable. He sees this as necessary to lessen the tax bite that has grown in size due to inflation. His view is that any cut should be about equally divided between individuals and businesses rather than the traditional form of benefiting individuals more than companies. This Institute agrees with Mr. Kahn.

A new group, the Committee to Fight Inflation, is comprised of former economic policymakers. (Such positions certainly have a high turnover of personnel.) They have gotten together to voice their views. The Committee wants it to be known they oppose tax cuts to combat the economic doldrums and favor business tax cuts that are small in the next two years and more substantial for three years after that.

In a Gallup poll of business leaders, the Wall Street Journal found the vast majority did not approve of Carter's leadership or economic policies. They see inflation as the most pressing problem, not any "recession." About two-thirds of the leading executives in small companies felt that the Administration has not been sympathetic to the problems of business whereas about one-half of leaders in large firms expressed this view.

Criticism surfaced in the Senate when a measure was passed to end the Credit Control Act of 1969 by July of 1981. President Carter made use of that act in the all-too effective program of credit restrictions enacted in March. Those restrictions squeezed tighter than they should have. Those actions were seriously involved in deepening the economic downturn.

In summary, KEDI does not expect the economy to perform quite as badly as many forecasters indicate. By the end of the fourth quarter there will be a slight upturn. The assumption of fiscal first aid during this summer has been dropped here and has led to a downward revision in figures as compared to the last issue. The mounting criticism of Administration economic policy is well deserved.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72 $	1399.2	1431.7	1432.7	1751.6
Index of Industrial Production	1967 =100	145.2	152.2	146.7	179.1
Capacity Utilization	%	84.3	85.7	80.8	87.8
Unemployment Rate	%	6.0	5.8	7.5	6.1
Private Housing Starts	mil. units	2.020	1.721	1.145	1.950
Car Sales	mil. units	11.3	10.8	8.0	12.9
Implicit GNP Price Deflator	1972 =100	152.1	165.5	180.5	281.8
Consumer Price Index	1967 =100	195.3	217.5	246.5	396.2
Producer Price Index	1967 =100	209.3	236.2	271.3	411.6
Federal Deficit	bil.$	-27.7	-11.2	-26.6	-15.8
Personal Income	bil.$	1717.4	1924.2	2103.6	3356.7
Prime Rate	%	9.06	12.76	13.73	10.16
Mortgage Rate	%	9.30	10.60	11.39	10.04
Currency plus Demand Deposits	bil.$	326.6	363.8	380.2	632.4
Commercial and Industrial Loans	bil.$	230.9	265.7	298.3	506.7

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the May, 1980, forecasts, some changes take place. The forecast data for the third and fourth quarters of 1980 and a part of 1981, have been lowered in real terms.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. No more tightening in fiscal and monetary policies will occur. In the Summer, the Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general.

4. It is assumed that in 1981 the new Administratin will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops.

7. It is projected here that the rates of growth in 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.0%	2.8%	3.1%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

8. This month the data for the forecast for 1981 and beyond has been changed to include a tax cut of $30 billion which will take effect in 1981.

1.1 REAL GROWTH

(Table 01. on page 12)

There are growing indications that the economic downturn is reaching its lowest point. Again, we have not had two consecutive quarters of decline in GNP which is the most widely used definition of a recession. Despite the popular abuse of the term, the first quarter of this year showed a real gain in GNP of 1.2 per cent. So whatever the second quarter brings, it cannot be the second quarter of decline. It is true, that present economic reports still show more negative than positive news, but most such reports are based on statistics concerning April and May. Some preliminary data for June have shown touches of improvements.

First, the negative news will be outlined. In April, new factory orders were down a seasonally adjusted 5.5 per cent from the March level. Orders for durable goods were down by 6.6 per cent. Orders for nondefense capital goods fell by 1.8 per cent. Factory inventories went up by 1.7 per cent in April. Factory shipments were down by 4 per cent, and the backlog of orders declined very slightly -- 0.1 per cent -- as compared to March.

Construction spending was down by 3.6 per cent in April from the prior month. Between February and March, it had declined by 5.4 per cent.

Steelmakers continue to announce more production cutbacks. The industry was operating at about 59 per cent of capacity. In April, there were 30,000 fewer steelworkers on the job than in the same month a year ago. Added layoffs in May and early June are estimated by those in the industry to have doubled that number to around 60,000. Output may fall to about 50 per cent of capacity in July.

Construction contracts awarded in April were 34 per cent below the level of one year earlier. Contracts for nonbuilding construction were down by 50 per cent.

Retail sales went down in May by 1.5 per cent from the April level. April showed a revised decline of 2.3 per cent from a month-earlier. That is four straight months of decline. If auto sales are excluded, then the May rate was only down by 0.5 per cent. Auto sales were down by a hefty 6.8 per cent between March and April.

Industrial production was down a seasonally adjusted 2.1 per cent in May. That index is also in its fourth month of decline. This weakness shows that the downturn has spread far beyond the housing and auto industries. Overall, production has gone down by 4.7 per cent since January.

During the second quarter, Administration economist estimated the economy was contracting at the rate of 8 per cent. According to KEDI this appears to be roughly correct but the decline may be more depending on more accurate data on inventories and foreign trade for the second quarter of this year. In the May publication of this Institute, it was stated that the second quarter drop would be in the 5 per cent range. That was based on calculations that included fiscal action by the Administration. The assumption was wrong.

The auto industry continues to cut back. June output is expected to be 12 per cent lower than in June of 1975 when sales were last in a severe slump. In May, production was 43 per cent below the total number of cars produced in the same month of 1979.

Auto sales were down by 20 per cent in early June as compared to the year-earlier figure. That was not as severe a decline as might have been expected. However, the total sales for June of 1979 were especially weak, so even the 20 per cent is a bit misleading. During mid-June, sales by U.S. auto firms dropped by 27 per cent, despite the offers of large rebates.

For the year, KEDI predicts total car sales will decline by 26 per cent from the 1979 level. In 1981, a rebound is expected with sales of about 10.5 million units. However, that is still a bit below the 1979 level as the reader can see in Table .01.

Factory shipments of major home appliances were down in May by one-third as compared to May of 1979. The main reasons cited are the drop in housing starts, the drop in existing home sales, and the credit restraints that put the pinch on potential buyers or scared them away from even trying to buy.

There is also good news to help balance the picture. Even though construction spending was down between March and April, the April rate was 2.4 per cent above the year-earlier figure. Steel industry experts point to the deep plunge in output as having the potential to lead to a faster rebound later this year or early next year. Due to the recent drop in mortgage rates, the housing industry will see benefits.

The Conference Board reported that consumer confidence in June gained for the first time in eight months. The index has a base year of 1969-70 when it was at 100. That figure was down toclose to 42 in April. In June it went up to 48. Although, for example, only 15 per cent of the families surveyed said they think business conditions will be better in the next six months, that was a gain from the 9.6 per cent that were in this category in May. Families with plans to buy homes rose to 2.9 per cent from the 2 per cent level of the prior month.

The Index of Leading Economic Indicators declined at a slower rate in May than in April. In May there was a drop of 2.4 per cent from the April level. April, however, showed a 4.1 per cent fall from the prior month. Two of the components went up: stock prices and building permits. The rise in building permits is of significance in projecting the pace of future building.

William Cox of the Commerce Department expressed the view that the third quarter will decline at a rate below that of the drop in the second quarter. He also noted that the housing industry is getting close to starting an upward movement. He expressed the view that even though the late April and May survey of business spending intentions show an inflation adjusted rise of just 1 per cent for this year given the condition of the economy, it is somewhat encouraging. KEDI agrees with this view.

In terms of agriculture, the prospects for this year appear to be good. A bumper crop of wheat is seen. Despite the wide variations in the weather, with some areas suffering drought, and others too much rain, the overall outlook is good.

Aluminum production, unlike steel, was not down in May. Preliminary figures show a slight gain in the number of tons produced.

While some government economists do not see enough evidence yet to say whether the decline is abating, others do see hints that the declines are leveling out and some upturn can be expected. The chief economist for the Commerce Department indicated that the economy will start on the upward path by late in the fourth quarter. For example, even though new factory orders for durable goods were down by 7.3 per cent in May, that figure is blurred by the swings in aircraft orders. If those are removed, orders for other nondefense capital goods show a seasonally adjusted gain of 5.6 per cent in May. Also, private wages and salaries fell by only 0.1 per cent in May, and personal income showed some gain.

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1444.7	1428.6	1427.1	1430.5	1432.7
Index of Indust. Production	1967=100	152.2	152.1	145.7	143.4	145.7	146.7
Unemployment Rate	%	5.9	6.1	7.7	8.2	8.0	7.5
Capacity Utilization Rate	%	85.7	85.1	80.1	78.9	79.2	80.8
Private Housing Starts	mil. units	1,721	1,330	945	1,104	1,203	1,145
Car Sales	mil. units	10.8	9.5	7.4	7.0	7.9	8.0
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1432.7	1435.2	1448.5	1456.9	1467.4	1452.0
Index of Indust. Production	1967=100	146.7	147.8	151.9	153.8	155.9	152.4
Unemployment Rate	%	7.5	7.6	7.2	7.1	6.6	7.1
Capacity Utilization Rate	%	80.8	81.2	82.8	85.4	85.9	83.8
Private Housing Starts	mil. units	1,146	1,132	1,315	1,489	1,496	1,358
Car sales	mil. units	8.0	9.9	10.3	10.8	11.0	10.5
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972$	bil.$	1452.0	1483.2	1498.2	1513.8	1522.4	1504.4
Index of Indust. Production	1967=100	152.4	156.8	158.2	159.7	161.0	158.9
Unemployment Rate	%	7.1	6.6	6.4	6.1	6.0	6.3
Capacity Utilization Rate	%	83.8	86.4	86.6	86.9	86.8	86.7
Private Housing Starts	mil. units	1,358	1,408	1,612	1,747	1,649	1,604
Car sales	mil. units	10.5	10.8	11.1	10.9	11.3	11.0

* Historical Data

1.2 PRICES

(Table 02. on page 15)

The KEDI forecast concerning the gains in prices has been lowered somewhat when compared to the previous issue. The main reasons for the change are related to the elimination of the assumption concerning fiscal first aid to the economy. (No "fiscal" ambulance arrived, not even a Boy Scout with a first-aid merit badge.) Hence, the downturn now is seen as deeper than before with higher unemployment, and, as a result, smaller increases in prices. The rest of the differences between the present and previous forecast is due mainly to the routine revisions of the first quarter 1980 historical price data. The revised KEDI forecast shows a slowdown in the gains in prices in the second half of this year as compared to the first half.

The consensus of economists seem to be that in the latter half of 1980, the consumer price index will rise at a slower rate due mainly to the changes in the prices of energy and housing.

In the first quarter, energy prices raged upward at an annual rate of 64.8 per cent and house-financing costs went up at an annual rate of 43.9 per cent contributing to the 18.1 per cent first quarter annual inflation rate. Fortunately, in April energy prices went up at a lower annual rate of "just" 11.4 per cent. (It is not easy to cheer for 11.4 per cent; but, when compared to over 60 per cent, a sigh of some relief is in order for those looking for silver linings on the energy clouds.)

Many economists see the price gains in the last six months of 1980 as dropping below a 10 per cent annual rate. Some forecast a rate of 8 per cent and there are even those that mention a rate of around 5 per cent which is seen as being short lived.

The forecast by this Institute is not as optimistic as the 5, 8, or 10 per cent rates just cited. For both 1980 and 1981, it is expected here that the inflation rate will be at least 12 per cent. No substantial relief is seen in 1982 or in the immediate subsequent years.

The major components that will contribute to the gains in prices in 1981 are the continued hiking of oil prices by the OPEC nations. Secondly, the weak international position of the dollar, due mainly to the low interest rates in the U.S.A. as compared with rates overseas, will contribute to price gains. In previous issues of this survey, it was stated that one of the negative consequences of the dramatic decline in interest rates in this country will be the decline in the exchange rate of the dollar which pushes up import prices and also exports. The prediction of these consequences are now beginning to be a reality.

Calculations show that if the U.S. interest rates continue to decline significantly, then the expected rate of inflation here will have 1 or 2 per cent more added. That is one of the results of the relationship of interest rates in the world. For example, declines here could mean the current dollar exchange rate of 1.8 German Marks would go to 1.5, adding to inflation here.

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	244.2	249.8	255.3	246.5
Producer Price Index, NSA	1967=100	236.2	258.7	266.4	275.2	284.8	271.3
Implicit GNP Price Deflator	1972=100	165.5	174.5	178.3	182.6	186.8	180.5
Gross National Product	bil.$	2369.5	2520.8	2547.2	2605.9	2672.2	2586.5
Personal Cons. Expenditures	bil.$	1510.0	1629.5	1646.1	1684.4	1746.0	1676.5
Gross Private Dom. Investment	bil.$	387.3	387.7	390.2	393.8	398.5	392.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.5	260.2	269.9	277.9	282.3	272.8
Producer Price Index, NSA	1967=100	271.3	292.7	297.4	302.0	308.1	300.1
Implicit GNP Price Deflator	1972=100	180.5	190.4	195.1	200.4	205.1	197.8
Gross National Product	bil.$	2586.5	2732.6	2826.0	2919.6	3009.6	2871.3
Personal Cons. Expenditures	bil.$	1676.5	1797.6	1865.6	1933.6	2002.6	1899.9
Gross Private Dom. Investment	bil.$	392.6	408.4	418.2	425.2	431.8	420.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	272.8	290.2	297.4	302.3	307.8	299.4
Producer Price Index, NSA	1967=100	300.1	322.7	326.2	328.1	332.7	327.4
Implicit GNP Price Deflator	1972=100	197.8	207.3	211.5	215.9	217.7	213.1
Gross National Product	bil.$	2871.3	3074.7	3168.7	3268.3	3314.8	3206.6
Personal Cons. Expenditures	bil.$	1899.9	2040.7	2118.8	2178.7	2221.8	2140.0
Gross Private Dom. Investment	bil.$	420.9	439.3	448.7	460.3	470.5	454.7

*Historical Data

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 17)

Again, due to the elimination of the assumption about fiscal assistance to the economy, revisions in the forecast are necessary. Regarding employment, this change produces higher jobless rates in the second half of this year and in the first half of the following year.

Projections of most economists show that the rate of joblessness will go up at a good clip during the rest of this year. Some forecast a 10 per cent rate which would top the 9 per cent rate reached at the end of the last recession in May, 1975. KEDI does not agree.

Labor Secretary Ray Marshall mentioned that the rate could go up to 8.5 per cent by the early part of 1981, but he was not calling that a prediction.

KEDI forecasts the peak of the jobless rate as being reached in the third and fourth quarters of this year. KEDI predicts the third quarter rate will be 8.2 and the fourth quarter 8.0 per cent. The unemployment rate for the first quarter of 1981 is forecast here at 7.6 per cent. After that, a gradual decline will take place. The reader is referred to Table 03. on page 17 .

1.4 HOUSING

(Table 04. on page 18)

The forecast here concerning housing starts remains basically unchanged. Relative to other forecasters, this Institute remains optimistic. Data here reveal that the bottom of the present downturn will be reached in the third quarter. As can be seen in Table 04., a gradual improvement will take place throughout 1981. However, a more normal level of housing starts, 1.8 million units, will not be reached any earlier than 1982.

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.2	106.0	105.1
Employed	mil.	97.2	97.8	96.8	96.6	97.5	97.2
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.5	93.4	93.2	94.2	93.8
Unemployment Rate	%	5.80	6.13	7.68	8.19	7.98	7.50
Indicator	Unit	1981	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.2	98.5	99.3	100.2	101.3	99.8
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	93.8	95.2	96.0	96.8	98.0	96.5
Unemployment Rate	%	7.50	7.62	7.19	7.08	6.63	7.13
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.3	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.9	102.9	103.9	104.9	103.4
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	96.5	98.6	99.5	100.5	101.6	100.0
Unemployment Rate	%	7.13	6.61	6.40	6.11	5.96	6.27

* Historical Data

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Single-Family Housing Starts	mil. units	1,169	801	575	628	675	670
Multifamily Housing Starts	mil. units	.551	529	370	476	528	476
Mobile Homes Shipments	thous units	283	257	198	204	219	220
Housing Permits Issued	mil. units	1,535	965	891	926	964	937
Construction Costs-Commerc.	1972= 100	180.2	193.5	197.1	199.2	202.6	198.1
Construction Costs-Resident.	1972= 100	178.8	192.1	196.3	199.4	205.8	198.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	670	724	763	901	893	820
Multifamily Housing Starts	mil. units	476	408	552	588	603	538
Mobile Homes Shipments	thous units	220	248	269	280	289	272
Housing Permits Issued	mil. units	937	980	1185	1365	1398	1232
Construction Costs-Commerc.	1972= 100	198.1	209.4	216.3	220.1	229.1	218.7
Construction Costs-Resident.	1972= 100	198.4	210.5	216.9	219.4	227.2	218.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil. units	820	852	964	1008	996	955
Multifamily Housing Starts	mil. units	538	556	648	639	653	624
Mobile Homes Shipments	thous units	272	281	304	316	302	301
Housing Permits Issued	mil. units	1232	1306	1589	1693	1714	1576
Construction Costs-Commerc.	1972= 100	218.7	239.4	248.7	256.8	264.9	252.5
Construction Costs-Resident.	1972= 100	218.5	238.2	249.6	256.7	266.7	252.8

*Historical Data

The judgment of many economists are still overly influenced by the depressed April and May housing statistics. In May, housing starts fell by 11.5 per cent from the April level on a seasonally adjusted basis. May starts of this year were off by 49 per cent from the year-earlier level. However, building permits did move up a bit. They gained 2.2 per cent over the April level on an adjusted basis. At the end of June there were indications that housing activity was beginning to revive a little.

KEDI's position concerning the housing market conforms with those that express the view that prices will keep going up. Hence, what could be gained by slight declines in interest rates would be lost due to higher prices. The average sales price for a new house was $73,900 in April. A year earlier that figure was $71,000. The KEDI projection for the end of this year is $75,000 and for the end of 1981: $82,000.

1.5 BUDGETS

(Table 05. on page 21)

The projection here for government budgets has been changed. The basic reasons are the dropping of the estimate of $10 billion in fiscal aid from the federal goverment and the wider deficit projected by KEDI of at least $20 billion for fiscal 1981. (As was mentioned in an earlier section, the 0.5 billion in aid to state governments is a step in the right direction, but it is simply much too small an amount.)

KEDI has always been sceptical about the balanced budget talk in Washington. In fact, as the reader can see in prior issues of this publication, a balanced Federal budget has never been incorporated into the forecasts. Obviously, this Institute agrees with the growing number of people expressing the opinion that the budget balancing is fictitious. It is appropriate to take delight in quoting Milton Friedman. He refers to the accounting sleight of hand that was used.

> Spending was shifted from fiscal 1981 to fiscal 1980, and tax revenue the other way, in order to 'balance' the 1981 budget by increasing the already large deficit for 1980. Projected spending and revenue for 1981 are calculated on favorable assumptions for budget balance--good economic conditions and high inflation during 1981.

(Newsweek, June 23, 1980, page 68.)

Because of the recessionary impact on taxes and expenditures, the budget will never be balanced in fiscal 1981. Congressional action has made it increasingly clear that no balance will be reached in the budget. Some in Congress expressed the view that everyone knows there really is no balance and that deficits of $20 billion or more are likely.

KEDI has adopted the assumption of a tax cut in 1981. First, the tax cut is necessary, because it will alleviate, at least partially, the UNACCEPTABLE burden of taxes proposed by the Administration. Between 1980 and 1981, inflation is expected to add roughly another $23 billion to individuals' income tax bills. The proposed tax cut now being considered will lessen the tax burden about $300 per family, on the average. However, that is not really much of a dent when it is put in the context of inflation, and the gains in taxes and social security deductions. The Tax Foundation estimates that in 1980 a family earning $25,000 will pay $619 more in income and social security taxes than in 1979. That same family will lose about $2,700 in purchasing power from the prior year due to inflation.

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	239.9	248.5	251.1	259.7	249.8
Corporate Profit Tax Accruals	bil.$	78.5	86.8	85.7	86.9	88.4	87.0
Surpl./Deficit	bil.$	-11.2	-22.9	-25.3	-30.7	-27.6	-26.6
State and Local Governments:							
Income Taxes	bil.$	40.7	39.7	40.8	41.6	42.9	41.3
Corporate Profit Tax Accruals	bil.$	14.4	15.6	15.4	15.9	17.0	16.0
Surpl./Deficit	bil.$	24.7	24.6	24.0	23.1	23.6	23.8

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	249.8	270.3	281.6	290.4	302.5	286.2
Corporate Profit Tax Accruals	bil.$	87.0	91.5	94.7	97.8	99.6	95.9
Surpl./Deficit	bil.$	26.6	-25.7	-28.6	-24.2	-21.5	-25.0
State and Local Governments:							
Income Taxes	bil.$	41.3	44.0	45.7	47.1	48.3	46.3
Corporate Profit Tax Accruals	bil.$	16.0	17.8	19.2	21.3	21.9	20.1
Surpl./Deficit	bil.$	23.8	24.5	25.8	27.1	28.1	26.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	286.2	314.7	320.9	329.5	331.3	324.1
Corporate Profit Tax Accruals	bil.$	95.9	104.3	109.6	117.3	122.5	113.4
Surpl./Deficit	bil.$	25.0	-19.6	-17.5	-11.4	-10.7	-14.8
State and Local Governments:							
Income Taxes	bil.$	46.3	50.4	51.6	53.2	55.1	52.6
Corporate Profit Tax Accruals	bil.$	20.1	23.2	24.5	25.8	27.2	25.2
Surpl./Deficit	bil.$	26.4	28.6	30.1	31.7	32.4	30.7

* Historical Data

As Louis Rukeyser pointed out in mid-June, it is likely that Congress will enact some type of relief from the horrendous gains in Social Security taxes. The new maximum which goes into effect in January will rise by $387.38 to $1,975.05. Hikes are scheduled now up to 1987 when the maximum tax will reach $3,045.90 before the social security deduction stops taking a portion of yearly pay.

The second reason a tax cut is necessary is to provide stimulus for new investment and production. Both Republicans and Democrats are aware of the heavy burden of business taxes. New investment and production need to be stimulated.

1.6 INCOME

(Table 06. on page 23)

The forecast numbers for personal income, personal disposable income, earnings and related indicators have been decreased in this issue. The projection for after tax profits during the rest of 1980 has been somewhat reduced.

Recently released data for personal income in May show that it has advanced infinitesimally; it was almost flat when compared with the April estimate. The KEDI projection shows that in the third quarter, personal income will remain almost level with the second quarter. An increase is expected in the last months of this year.

The forecast for 1981 reveals the resumption of the normal trend. That is, compared with 1980, nominal personal income will increase by 12 per cent. The gain in 1982 will be approximately 13 per cent over the former year.

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Personal Income	bil.$	1924.2	2057.4	2064.5	2106.7	2185.9	2103.6
Personal Dispos. Income	bil.$	1624.1	1737.4	1745.7	1751.3	1794.8	1757.3
Compensation of Employees	bil.$	1459.5	1555.2	1558.7	1570.8	1630.2	1578.7
Corp. Profits After Tax	bil.$	144.6	158.0	156.1	158.9	160.8	158.5
Personal Saving	bil.$	73.2	64.4	69.8	74.6	76.8	71.4
Average Weekly Earnings	$	218.7	224.2	225.3	227.8	229.8	226.8
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2103.6	2245.8	2316.9	2382.7	2445.6	2347.8
Personal Dispos. Income	bil.$	1757.3	1820.5	1870.4	2019.6	2098.7	1952.3
Compensation of Employees	bil.$	1578.7	1691.2	1754.3	1821.9	1885.6	1788.3
Corp. Profits After Tax	bil.$	158.5	165.3	168.7	171.2	173.4	169.7
Personal Saving	bil.$	71.4	74.5	76.8	78.1	80.5	77.5
Average Weekly Earnings	$	226.8	231.5	234.7	237.5	239.8	235.9
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil.$	2347.8	2496.3	2553.9	2620.7	2694.3	2591.3
Personal Dispos. Income	bil.$	1952.3	2131.0	2175.6	2238.4	2296.8	2210.5
Compensation of Employees	bil.$	1788.3	1958.4	2014.1	2064.3	2101.3	2034.5
Corp. Profits After Tax	bil.$	169.7	176.2	178.1	181.0	183.5	179.7
Personal Saving	bil.$	77.5	84.3	87.2	89.6	92.4	88.4
Average Weekly Earnings	$	235.9	242.6	245.4	249.7	254.2	248.0

* Historical Data

The projection of corporate profits shows the leveling for the second, third and fourth quarters of the year. Some increases are expected in 1981. During 1982 and 1983, after tax corporate profits will gain by 15 and 16 per cent, respectively.

1.7 MONEY AND CREDIT

(Table 07. on page 25)

For the second half of 1980, KEDI projects a mild growth in the money supply, M1A, and more significant gains throughout 1981 and subsequent years. In total, growth of 3 per cent is expected in 1980 as compared with the prior year. The resumption of growth will take place in 1981 and 1982: 7 and 9 per cent, respectively. Some faster growth is expected by M2: 1980, +8 per cent; 1981, +10 per cent; and 1982, +12 per cent.

The projection of commercial and industrial loans parallels the forecast concerning the money supply during the remainder of 1980; that is, a gain of 8 per cent. For 1980 as a whole, the gain will average 4.5 per cent. Some faster growth is expected in 1981; +6 per cent. The estimate for 1982 for this category is 9 per cent growth over the prior year.

Consumer credit will remain stagnant for at least the rest of the year. This Institute projects a gradual resumption in growth, mainly in automobile debts, starting in the second quarter of 1981.

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Currency+Demand Deposits M1A	bil.$	363.8	374.8	377.2	384.3	391.5	380.2
Time Deposits, Adjusted M2	bil.$	1471.4	1543.1	1586.2	1599.4	1618.7	1586.9
Consumer Instal. Credit	bil.$	298.2	294.6	295.3	298.7	305.4	305.4
Commerc.and Ind. Loans at Banks	bil.$	265.0	275.9	278.4	289.6	298.3	298.3
Negotiable Cert.of Deposits	bil.$	115.6	117.2	120.3	122.5	127.3	127.3
Mortgages at S&L Assns.	bil.$	475.8	479.3	483.5	494.2	505.6	505.6
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposits M1A	bil.$	380.2	398.7	415.6	422.7	426.1	415.8
Time Deposits, Adjusted M2	bil.$	1586.9	1649.1	1671.3	1690.5	1704.8	1678.9
Consumer Instal. Credit	bil.$	305.4	308.1	311.2	314.4	318.7	318.7
Commerc.and Ind. Loans at Banks	bil.$	298.3	309.2	316.8	325.3	331.8	331.8
Negotiable Cert.of Deposits	bil.$	127.3	130.6	135.2	140.8	146.4	146.4
Mortgages at S&L Assns.	bil.$	505.6	517.4	530.4	538.7	546.7	546.7
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency+Demand Deposts M1A	bil.$	415.8	433.2	440.6	449.7	456.8	445.1
Time Deposits, Adjusted M2	bil.$	1678.9	1719.6	1730.4	1748.1	1760.5	1739.7
Consumer Instal. Credit	bil.$	318.7	321.9	323.5	325.7	328.9	328.9
Commerc.and Ind. Loans at Banks	bil.$	331.8	341.0	352.6	358.4	367.8	367.8
Negotiable Cert.of Deposits	bil.$	146.4	152.3	155.1	158.2	162.3	162.3
Mortgages at S&L Assn.	bil.$	546.7	556.2	569.4	577.5	589.2	589.2

* Historical Data

1.8 INTEREST RATES

(Table 08. on page 27)

Recent moves in lowering the interest rates have brought them closer to the one-digit level. Although rates of 9 per cent or so are beneficial to some, for the economy as a whole they are costly.

In mid-June the Federal Reserve lowered its discount rate to 11 per cent from 12 per cent. KEDI assumes that the Federal Reserve's steps in the near future to lower the interest rates will be more cautious. The U.S. rates, at the present time, are dangerously below the rates prevailing overseas, and further declines may destabilize the international value of the dollar.

However, some economists predict that it will not be long before the interest rates drop below the current level. Some foresee a prime rate below 10 per cent during the summer and the continuous decline of other key rates.

KEDI does not agree that further significant declines in interest rates are to be expected. The possible decline of the Federal Reserve discount rate to 10 per cent this summer will still leave the prime rate closer to but above the 10 per cent range.

It is expected here that by the end of this year, interest rates will rebound slightly, reflecting the revival of the demand in the economy. The projection shows that in 1981, the prime rate will fluctuate in the 11-12 per cent range, and mortgage rates on new homes will be in the neighborhood of 11 per cent. Slight gains in interest rates are expected in 1982 and 1983.

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.19	13.35	10.27	9.75	10.12	10.87
Prime Rate	%	12.76	16.39	15.63	11.10	11.80	13.73
Mortgage Rate, New Homes	%	10.60	11.78	11.59	11.16	11.02	11.39
Aaa Bonds Rate	%	9.63	12.14	11.48	10.28	10.94	11.21
Long Term Govt. Bonds Yield	%	9.33	11.78	10.41	10.14	10.02	10.59
Standard & Poor's 500 Average	1941-43=100	102.83	106.97	101.23	98.27	99.83	101.58

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.87	10.31	10.65	10.59	10.14	10.42
Prime Rate	%	13.73	12.10	12.14	11.86	11.74	11.96
Mortgage Rate, New Homes	%	11.39	11.24	11.38	11.62	11.53	11.44
Aaa Bonds Rate	%	11.21	11.06	10.95	10.83	11.15	11.00
Long Term Govt. Bonds Yield	%	20.59	10.14	10.23	10.45	10.61	10.36
Standard & Poor's 500 Average	1941-43=100	101.58	101.15	104.26	108.34	110.14	105.97

Indicator	Unit	1981	1982				1962
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.42	10.85	11.24	11.98	11.74	11.45
Prime Rate	%	11.96	11.36	11.05	11.84	12.36	11.65
Mortgage Rate, New Homes	%	11.44	11.27	11.06	10.87	10.54	10.94
Aaa Bonds Rate	%	11.00	11.24	10.85	10.32	10.04	10.61
Long Term Govt. Bonds Yield	%	10.36	10.11	10.24	10.42	10.65	10.36
Standard & Poor's 500 Average	1941-43=100	105.97	107.26	103.11	101.26	102.18	103.45

* Historical Data

Stock market prices are forecast here as experiencing significant downward movements during the third quarter. A resumption of an upward trend will begin in 1981.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, consumer price index for the first quarter 1980 has been selected for comparison. Actual data are taken from the U.S. Department of Commerce estimate in Survey of Current Business, April 1980 issue, blue pages (three months average). Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond Va., February 1980, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

CONSUMER PRICE INDEX

(First quarter 1980, 1967 = 100)

Actual: 236.6

FORECASTER Level:	Page in Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	231.5	-2.2
Chemical Bank	21	232.9	-1.6
First National Bank of Chicago	22	233.8	-1.2
Georgia State University	24	233.1	-1.5
Bankers Trust Company	28	233.9	-1.1
Goldman Sachs	29	234.6	- .8
The Fidelity Bank	30	235.0	- .7
KEDI	31	234.7	- .8
Morgan Guaranty	35	235.1	- .6

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KENT ECONOMIC
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INSTITUTE

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Vol. 6, No. 2, July 31, 1980

KEDI ECONOMIC SURVEY

JULY ISSUE

July 31, 1980

President: Vladimir J. Simunek

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Editor: Diane L. Lewis

Publication No. 078000504
KEDI July 31, 1980

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI's projection for the rest of this year shows that the downturn will last until the third quarter. That quarter will be close to being flat as compared to the second quarter. The last quarter will show some increases in the total output of the economy. An upturn will be mild during the first six months of 1981. In the latter part of that year, the upturn will gain momentum, and faster growth will continue during 1982.

In its July budget review, the Administration made some substantial changes from the figures that were used in March. Both sets of information must be viewed in the light of the track record for these projections for the past two years. The Administration's reports have deviated substantially from the actual situation. It is very likely that the current report will keep up that same tradition of being out of the running.

The single largest change made in July concerns the forecast for GNP which the Office of Management and Budget in March had pegged at showing a 0.4 per cent decline when December, 1979, and December, 1980 are compared. Their more recent estimate exceeds 3 per cent. The March estimate for the gain in consumer prices between the end of last year and the current year was at 12.8 per cent. In July that was cut to an even 12 per cent. That was the only figure that was reduced when the March and July estimates are compared. The calculations for the end of 1981 as compared with the end of 1980 were all increased in the July revision of the Budget Office.

The midyear review that the White House presented was a rather grim one overall. As the reader can see, KEDI projections appear optimistic in comparison, except for price rises in 1981.

Percentage changes, December, 1979
and December, 1980

	Administration	KEDI
GNP	Decline by 3.1	Decline by 1.8
Consumer Prices	Increase by 12	Increase by 11
Unempl. rate, Dec. 1980	8.5	7.7

Percentage changes, December, 1980
and December, 1981

	Administration	KEDI
GNP	Increase by 2.6	Increase by 3.4
Consumer Prices	Increase by 9.8	Increase by 11.6
Unempl. rate, Dec. 1981	8.5	6.7

Some of the released economic news supports the somewhat favorable outlook of KEDI. First, retail sales did increase in June. Secondly, housing starts also went up that month. Thirdly, orders for machine tools also gained. Fourth, there have been no indications that would point to a dramatic gain in the rate of unemployment in the next few months.

Fifth, the index of consumer confidence put out by the Conference Board moved upward for the first time since last fall. The index gained about 6 points to reach a June level of 48. The index of plans for purchasing autos, housing, and appliances also went up in June. This latter measure rose by 11 to reach above 87. That may be one small bit of good news for U.S. automakers, but not if small foreign cars are the object of the consumer's desire.

Sixth, credit sales have begun to move back again after declining sharply in the response to the credit squeeze of March that the Federal Reserve and the Administration started.

Seventh, in June, the first increase in eight months in the value of construction contracts occurred.

Eighth, the Index of Leading Economic Indicators went up in June. That was the first gain in 12 months. The index in June was 2.5 per cent above the May level. KEDI agrees in principle with Chase Econometrics and other economists that have been saying recently that the worst is over but the downturn will not bottom our completely until late this year. However, many forecasters had been predicting a longer and deeper downturn than this Institute.

Looking ahead a few months holds the potential of presenting an out of focus picture due to the actions of the Federal Reserve. If they move again to tighten credit controls, the downturn will proceed well into next year.

Monetary and credit policy also need to be mentioned here. It is expected by this Institute that such policies will not get any tougher before the end of this year.

At the present time, the majority of forecasters, agree that the economy is at or close to the bottom. They view the fourth quarter of this year as the start of gradual improvement. In terms of a broad overview, KEDI is in agreement.

However, when it comes to specific rates of growth, this Institute is ahead of the pack. Blue Chip Economic Indicators surveyed 40 analysts and found that the average rate of inflation-adjusted GNP forecast for 1981 was a mere 0.5 per cent. Calculations here show that during 1981 GNP will expand by about 1.7 per cent.

Earlier issues of the KEDI Economic Survey did not show an economic downturn quite as clearly as the June and July issues. It has been assumed here that there would be a tax cut this year. That assumption was dropped last month. The Administration is against any tax cut effective during 1980. In late July, Treasury Secretary Miller stressed the added inflation a tax cut would bring this year. He also noted that cuts to give a boost to the productive section of the economy might be in order in the near future. Such a cut is now seen as much more likely to take effect during 1981.

In summary, this month has brought some good economic news. The economy including the consumer is not performing as badly as many media headlines would have readers believe. There will be a slight upturn starting by the end of this year. Still there is no shortage of specific declines in the economy. These are discussed in the next section.

KEDI forecast is highlighted on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1420.2	1752.8
Index of Industrial Production	1967 =100	145.2	152.2	146.2	180.1
Capacity Utilization	%	84.3	85.7	79.3	87.2
Unemployment Rate	%	6.0	5.9	7.5	6.0
Private Housing Starts	mil. units	2.020	1.721	1.184	1.956
Car Sales	mil. units	11.3	10.8	8.2	12.8
Implicit GNP Price Deflator	1972 =100	152.1	165.5	180.7	282.0
Consumer Price Index	1967 =100	195.3	217.5	246.7	397.0
Producer Price Index	1967 =100	209.3	236.2	269.2	412.9
Federal Deficit	bil. $	-27.7	-11.2	-29.6	-16.0
Personal Income	bil. $	1717.4	1924.2	2112.6	3364.1
Prime Rate	%	9.06	12.76	13.55	10.09
Mortgage Rate	%	9.30	10.60	12.63	10.11
Currency plus Demand Deposits	bil. $	326.6	363.8	379.4	633.5
Commercial and Industrial Loans	bil. $	230.9	290.5	308.9	510.4

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the June, 1980, forecasts, some changes take place. The forecast data for the third and fourth quarters of 1980 and a part of 1981, have been lowered in real terms. Changes in Assumptions concern the Assumption No. 3.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all but basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. In the summer, no more tightening in fiscal and monetary policies will occur. The Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general. In the last months of this year, some tightening of monetary and fiscal policies is expected.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board

will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly spring wheat, have been reduced somewhat.

7. It is projected here that the rates of growth in 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.0%	2.8%	3.1%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

8. Last month the data for the forecast for 1981 and beyond has been changed to include a tax cut of $30 billion which will take effect in 1981.

1.1 REAL GROWTH

(Table 01. on page 12)

Although there were some signs of improvement in the consumer and foreign trade segments of the economy, the producer segment has not shown any progress. Mixed economic news continues. In June, industrial output was down by a seasonally adjusted 2.4 per cent from the May level. The overall decline in the second quarter was not as sharp as the decline in the recession of 1974-75. Industrial production in June of this year was 7.5 per cent lower than the year earlier figure.

Durable orders were down by 2.8 per cent in June, seasonally adjusted. That was the fifth month of decline, but the drop was the smallest one since February. It was less than half of the rate of fall that had been recorded in May when such orders fell by 7 per cent from the adjusted April level. At least such a rate of decline hasn't proved to be a durable one.

Shipments of durable goods were down by 1.7 per cent in June. Again, that is a much smaller rate of decline than the April-to-May drop of 3.8 per cent. The backlog of orders declines by 1 per cent in June from the prior month.

Factory shipments went down slightly in May from the adjusted April level. These shipments were off by 1.8 billion and reached $ 141.80 billion in May.

The National Association of Purchasing Management Inc. reported that in their latest survey, the number of companies reporting declines in new orders received was higher than it had been in the past 30 years. Fifty eight per cent of the managers questioned said they received less orders in June than in May. Just 5 per cent of them reported a gain in this area.

Again, there is some positive news in the mixed reports surfacing. In addition to the small list of gains in various sectors mentioned in the Overview section, auto assemblies also showed some increase. That was the first positive change in auto production since February. Auto assemblies went up in June by 7 per cent to an annual rate of 5.9 million units.

Another cheery note can be seen in machine tool orders. These rose by 5.3 per cent in June from the May level, and the gain over June of 1979 was 8.1 per cent. However, those in the industry express the view that such orders will decline some in the next few months as the impact of the downturn curtails demand. Also as factories were operating at 76 per cent of capacity in June, there has not been any need for addional capacity or tools. Even with some upturn, such factories will not have much immediate need for new equipment.

Despite that gain, the decline in factory orders indicate the bottom stage has not yet been reached. First, such orders have to go up, but it is not until several months later that any gains of that nature create increases in industrial production.

The forecast by this Institute points to a slight upturn in business activity taking place later this fall. No significant improvement in business activity will occur in 1980. During 1981, the recovery will gain some momentum.

In the first half of 1981, some improvements will be experienced in these industries: housing, construction, rubber, appliances, stone and clay products, paper and board, lumber and wood products, apparel, and textiles. Around the middle of 1981, the following industries will begin to recover at a more rapid pace: steel, automobiles, chemicals, plastics and iron ore mining.

There are a few areas that will continue to perform well during the rest of this year and throughout 1981. These are oil, gas, coal, electricity, and most of the machinery industry and aluminum industry. (Energy industry profits are no suprise but the consumers struggling to pay the ever-rising prices may begin to wonder more about it and push for relief.)

In this issue, the forecast has been reduced for the harvest this year. Making hay while the sun shines will be curtailed a bit by farmers as the very hot and dry weather has taken its toll. The projection for corn has been cut by 7 per cent, hay by 3 per cent, tobacco by 5 per cent, and spring wheat by 6 per cent.

TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1444.7	1410.8	1408.5	1416.9	1420.2
Index of Indust. Production	1967=100	152.2	152.1	144.7	143.1	145.0	146.2
Unemployment Rate	%	5.9	6.1	7.5	8.2	8.0	7.5
Capacity Utilization Rate	%	85.7	85.1	77.2	76.8	78.1	79.3
Private Housing Starts	mil. units	1,721	1,330	1,048	1,149	1,211	1,184
Car Sales	mil. units	10.8	9.5	7.7	7.9	7.6	8.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1420.2	1425.7	1436.7	1451.2	1465.3	1444.7
Index of Indust. Production	1967=100	146.7	146.9	148.7	152.1	154.3	150.5
Unemployment Rate	%	7.5	7.7	7.2	7.1	6.6	7.1
Capacity Utilization Rate	%	79.3	79.8	81.5	84.2	85.0	82.6
Private Housing Starts	mil. units	1,184	1,144	1,330	1,530	1,495	1,374
Car sales	mil. units	8.2	9.0	10.1	10.4	10.6	10.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972$	bil.$	1444.7	1477.5	1494.7	1512.6	1520.3	1501.3
Index of Indust. Production	1967=100	150.5	156.0	157.8	159.5	160.9	158.6
Unemployment Rate	%	7.1	6.6	6.4	6.1	6.0	6.2
Capacity Utilization Rate	%	82.6	86.0	86.3	86.5	86.4	86.3
Private Housing Starts	mil. units	1,358	1,400	1,603	1,642	1,644	1,572
Car sales	mil. units	10.0	10.1	11.1	10.8	11.3	10.8

* Historical Data

The forecast for winter wheat, though, has been increased by 10 per cent.

1.2 PRICES AND NOMINAL GNP

(Table 02, on page 15)

Some price projections in this issue have been changed slightly. This is due mainly to revised data in the index of producer prices. In June, the producer price index for finished goods went up by 0.8 per cent, seasonally adjusted, from the May level. For the second quarter such prices gained at a much lower rate than had been experienced in the first quarter.

KEDI projects an 11 per cent gain in consumer prices during this year and in 1981. The increase in 1982 as compared to 1981 will be at the slightly lower rate of 10 per cent.

This is roughly in line with the majority of forecasters. For instance, Data Resources predicts the consumer price index will go up by 11.5 per cent this year and 9.1 during 1981. Chase Econometrics predicts such prices will gain by 12.9 per cent this year and 9.7 per cent next year.

Consumer prices in June rose at an adjusted rate of 1 per cent. That was above the May rate of 0.9 but much lower than the 1.4 per cent monthly average in the first quarter. During July and August, this Institute expects that consumer price gains will slow to close to a 10 per cent annual rate. In the fall, there will be a resumption of the upward trend in this area. The main reasons for the acceleration at that time will be the gains in the prices of food items and imported goods. Producers' prices will increase at a faster rate in these months also.

The damage caused by the heat and dry weather in much of the United States has been affecting crops, cattle, and chickens. Consumers will pay for the cut in supplies in the grocery stores as middlemen continue to make profits.

The forecast by this Institute shows the current downturn (which was largely initiated by the Administration's action in March of this year) will not result in any desireable lessening in the rate of gains in prices. In the 1974-75 recession, the rate of inflation was reduced to an annual rate of 5 per cent. The current downturn will not end up with such a relatively low rate. Inflation of 10 per cent is much more likely. The harsh manipulation of interest rates earlier this year contributed to the resistance of the inflation rate to any severe cuts.

The question is raised as to the effectiveness of trying to use a downturn as a weapon to fight inflation. Calculations here show that low productivity of labor and ever increasing costs of labor plus excesses and inefficiencies of the government are the main causes of inflation.

TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	249.1	255.9	246.7
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	271.9	282.6	269.2
Implicit GNP Price Deflator	1972=100	165.5	174.5	178.9	182.5	186.7	180.7
Gross National Product	bil.$	2369.5	2520.8	2523.4	2570.5	2645.4	2565.0
Personal Cons. Expenditures	bil.$	1510.0	1629.5	1628.2	1671.3	1722.1	1662.8
Gross Private Dom. Investment	bil.$	387.3	387.7	366.9	380.2	390.4	381.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	260.1	269.6	277.6	282.2	272.6
Producer Price Index, NSA	1967=100	269.2	290.4	296.7	300.8	307.7	298.9
Implicit GNP Price Deflator	1972=100	180.7	190.2	195.2	200.9	206.4	198.2
Gross National Product	bil.$	2565.0	2711.7	2804.4	2903.7	3024.4	2861.1
Personal Cons. Expenditures	bil.$	1662.8	1785.3	1852.4	1922.1	2010.5	1892.6
Gross Private Dom. Investment	bil.$	381.3	399.2	409.1	421.5	439.6	417.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	272.6	290.4	297.8	302.9	308.2	299.8
Producer Price Index, NSA	1967=100	298.9	320.5	324.1	326.0	330.3	325.2
Implicit GNP Price Deflator	1972=100	198.2	208.0	212.2	216.3	220.4	214.2
Gross National Product	bil.$	2861.1	3073.2	3171.8	3271.8	3350.7	3216.9
Personal Cons. Expenditures	bil.$	1892.6	2041.6	2121.2	2182.0	2234.6	2144.9
Gross Private Dom. Investment	bil.$	417.4	443.7	451.0	464.7	478.7	459.5

* Historical Data

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 17)

In June, the unemployment rate went down a bit to 7.7 per cent from the May level of 7.8. The July rate is expected to be just slightly above the June rate.

The KEDI forecast is optimistic when compared to projections of many forecasters. In the coming months, most of them expect that unemployment will rise substantially. Even the Administration's forecast calls for an unemployment rate of 8.5 per cent at the end of this year. They expect it will remain at roughly the same level throughout 1981.

This Institute's forecast is contained in Table 03. on the following page. The table shows a rate of 8.0 for unemployment in the fourth quarter of 1980 and consecutive declines during 1981.

More significant declines in this rate are expected during the second half of 1981. The projection show at that time most workers in the steel, rubber, construction, and chemical industries will be back at work. It is also forecast here that in the auto industry approximately 95 per cent employment will exist. Such recovery will be largely due to U.S. cars finally being competitive with the smaller and more fuel efficient imports.

During the second quarter of this year, labor productivity again fell--this time at an annual rate of 3.1 per cent. That makes six quarters

TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	96.6	97.5	97.2
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.5	93.5	93.2	94.2	93.8
Unemployment Rate	%	5.80	6.13	7.46	8.18	8.01	7.45

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.2	98.4	99.3	100.2	101.3	99.8
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	93.8	95.1	96.0	96.8	98.0	96.5
Unemployment Rate	%	7.45	7.69	7.17	7.05	6.60	7.13

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.3	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.9	102.9	104.0	104.9	103.4
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	96.5	98.6	99.5	100.5	101.6	100.0
Unemployment Rate	%	7.13	6.58	6.37	6.05	5.97	6.24

*Historical Data

in a row of such declines. There has been no growth to speak of in productivity since 1976. (That bicentennial year should have seen the start of better things.) Declining rates here add fuel to the inflation rate because rising wage rates are not able to be offset by any increased efficiency by the worker. Of course, management, equipment, and incentives or the lack of them are involved here.

The U.S. has provided poor productivity performance, particularly (tongue twister intended) since 1976 but starting back in the middle 60's. Labor costs will continue to increase sharply in the coming years due to the escalato- clauses in wage settlements. Such clauses cover almost one-half of all employees in U.S. industry. (The other one-half may find some means of getting raises in the attempts at economic survival in the face of steadily declining real income to spend.)

The KEDI forecast shows that there will be some increases in productivity but not before 1983. It should show gradual gains after that for a few years.

1.4 HOUSING

(Table 04. on page 19)

The present forecast for housing starts has been adjusted slightly upwards, due to the leap in housing starts, housing sales, and building permits in June. KEDI had been expecting some strength to show up here, but not quite as much as the June data revealed.

TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1,169	801	669	684	691	711
Multifamily Housing Starts	mil. units	.551	529	379	465	520	473
Mobile Homes Shipments	thous units	283	257	182	189	201	207
Housing Permits Issued	mil. units	1,535	965	885	1005	989	961
Construction Costs-Commerc.	1972= 100	180.2	193.5	197.0	199.1	202.3	198.0
Construction Costs-Resident.	1972= 100	178.8	192.1	196.4	199.0	205.1	198.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	711	728	772	936	894	832
Multifamily Housing Starts	mil. units	473	416	558	594	601	542
Mobile Homes Shipments	thous units	207	227	260	268	280	259
Housing Permits Issued	mil. units	961	976	1178	1349	1390	1223
Construction Costs-Commerc.	1972= 100	198.0	209.1	215.9	219.4	228.4	218.2
Construction Costs-Resident.	1972= 100	198.2	210.0	216.2	218.7	225.8	217.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil. units	832	850	962	1010	990	953
Multifamily Housing Starts	mil. units	542	550	641	632	654	619
Mobile Homes Shipments	thous units	259	275	298	304	297	294
Housing Permits Issued	mil. units	1223	1294	1576	1680	1701	1563
Construction Costs-Commerc.	1972= 100	218.2	238.5	247.6	255.7	263.9	251.4
Construction Costs-Resident.	1972= 100	217.9	237.9	248.7	254.8	265.6	251.2

*** Historical Data**

Single-family home starts went up by 18.9 per cent in June. Still, the rate was about 41 per cent below the rate one year earlier. Multi-family housing construction went up by 55.8 per cent in June. That rate was 30 per cent behind the rate in June of 1979.

This Institute's forecast shows housing starts will attain a level of 1,184 million units in 1980. That is still approximately 31 per cent below the total for last year. One of the main problems affecting any faster recovery is the stock of new, unsold houses. In June, it was estimated that there was an 8.8 month supply of new houses for sale at the end of May. Some price cutting has helped. In May the median price for a new home went down to $62,600 from the April level of $63,000 and the year-earlier level of $62,800.

New home sales were also aided by the fall in mortgage rates. In May, sales of new homes leaped ahead by 39.4 per cent from the April level. All the sales gains were in the South and West. On a year-to-year comparison, the national sales rate was still down 31.5 per cent.

The forecast concerning shipments of mobile homes has been adjusted downward. An upward adjustment has been made in the cost of housing.

1.5 BUDGETS

(Table 05. on page 22)

The Administration has finally abandoned the budget-balancing charade. They have admitted at last, that there will be a deficit in fiscal 1981, and it will amount to $29.8 billion from receipts of $604 billion and expenditures of $633.8 billion. (It was only March when government statements were made about the $16.5 billion surplus they anticipated.)

This Institute has always been sceptical of the balanced budget publicity. It was not to be believed here. A balanced budget was never incorporated in the assumptions or in the actual forecast.

Starting in 1977 (see, for example, the August, 1977, issue of the KEDI survey, page 3, and following issues), KEDI has built a 1981 tax cut into its assumptions. Indications now are that the tax cut will be enacted in the early part of next year.

Calculations here show that the tax burden will increase by approximately $50 billion in 1981 as compared to this year. That will have to be paid by consumers and businesses. Then the cut of $30 billion will not actually be a tax cut, but a CUTBACK in tax increases. Such estimates are roughly in line with Professor Walter Heller, formerly of the Council of Economic Advisors. He calculated that a small tax cut, about $30 billion, is actually a $30 billion reduction in the $60 billion tax increase likely next year. That amount, according to Professor Heller, comes from $27 billion in increased oil profits tax revenue, $14 billion in "bracket creep" in income taxes, and about $18 billion in new payroll taxes. Estimates here differ as to the payroll tax gain which KEDI calculates will be roughly $8 billion, hence the $50 billion figure mentioned at

TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	239.9	242.6	246.0	250.3	244.7
Corporate Profit Tax Accruals	bil.$	78.5	86.8	84.8	85.2	87.3	86.0
Surpl./Deficit	bil.$	-11.2	-22.9	-26.8	-33.4	-35.2	-29.6
State and Local Governments:							
Income Taxes	bil.$	40.7	39.7	40.0	40.8	42.0	40.6
Corporate Profit Tax Accruals	bil.$	14.4	15.6	15.2	15.1	16.2	15.5
Surpl./Deficit	bil.$	24.7	24.6	24.0	22.7	23.0	23.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	244.7	265.1	276.4	284.8	297.3	280.4
Corporate Profit Tax Accruals	bil.$	86.0	90.9	94.0	96.5	99.7	95.3
Surpl./Deficit	bil.$	-29.6	-39.5	-46.8	-49.8	-45.4	-45.4
State and Local Governments:							
Income Taxes	bil.$	40.6	43.5	45.2	46.9	48.4	46.0
Corporate Profit Tax Accruals	bil.$	15.5	17.0	18.9	21.4	22.0	19.8
Surpl./Deficit	bil.$	23.6	24.0	25.7	27.2	28.3	26.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	280.4	310.2	320.1	328.7	332.1	322.8
Corporate Profit Tax Accruals	bil.$	95.3	103.6	108.9	116.9	121.8	112.8
Surpl./Deficit	bil.$	-45.2	-32.1	-28.7	-24.6	-22.8	-21.8
State and Local Governments:							
Income Taxes	bil.$	46.0	49.7	50.3	52.8	54.9	51.9
Corporate Profit Tax Accruals	bil.$	19.8	23.0	24.4	25.9	27.3	25.2
Surpl./Deficit	bil.$	26.3	28.8	30.4	32.0	33.0	31.1

* Historical Data

the start of this paragraph as the tax increase in receipts likely.

The new KEDI projection of the Federal Budget shows a sharp gain in the deficit for both 1981 and 1982 calendar years. Originally, the forecast here was for $26.4 billion and $14.8 billion, respectively. Now the prediction shows a $45.4 billion deficit for 1981 and $21.8 in 1982. The deficit in 1981 is due mainly to the tax cut and larger unemployment benefits payments than previously anticipated.

As compared with the previous issue, no substantial change has taken place in the calculations for State and Local Budgets.

There is an agreement here (except for calling the downturn a recession) with the following quote from Professor Heller in the Wall Street Journal on June 30, 1980.

> ...we are in the midst of a recession induced by tough fiscal and monetary policy--an election-year recession induced to fight inflation. Surely, that violates all the political cliches about years divisible by four.

1.6 INCOME

(Table 06. on page 24)

The forecast here for after-tax corporate profits is somewhat lower than what had appeared in the last issue. Instead of a projected decline of 1.2 per cent in the second quarter of 1980 as compared to the first quarter, the drop is now seen as being in the 3 per cent range. For the third quarter, the new projection shows an additional drop of

TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Personal Income	bil.$	1924.2	2057.4	2078.3	2119.1	2195.4	2112.6
Personal Dispos. Income	bil.$	1624.1	1737.4	1754.0	1760.3	1799.7	1762.9
Compensation of Employees	bil.$	1459.5	1555.2	1566.1	1576.9	1640.8	1578.8
Corp. Profits After Tax	bil.$	144.6	158.0	153.4	146.2	149.7	151.8
Personal Saving	bil.$	73.2	64.4	82.9	80.5	81.7	77.4
Average Weekly Earnings	$	218.7	225.2	225.1	228.3	230.6	227.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2112.6	2251.6	2320.8	2386.9	2450.6	2352.5
Personal Dispos. Income	bil.$	1762.9	1827.5	1876.3	2025.7	3034.5	2191.0
Compensation of Employees	bil.$	1584.8	1695.7	1761.4	1828.7	1894.9	1795.2
Corp. Profits After Tax	bil.$	151.8	158.7	165.4	172.3	175.7	168.0
Personal Saving	bil.$	77.4	81.3	82.6	83.1	81.6	82.2
Average Weekly Earnings	$	227.1	232.4	236.0	238.1	240.5	236.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil.$	2352.5	2501.7	2560.7	2628.1	2700.3	2597.7
Personal Dispos. Income	bil.$	2191.0	2138.2	2181.4	2245.0	2301.5	2216.5
Compensation of Employees	bil.$	1795.2	1966.7	2021.5	2073.5	2109.7	2042.9
Corp. Profits After Tax	bil.$	168.0	178.1	180.2	182.6	184.0	181.2
Personal Saving	bil.$	82.2	83.5	88.4	89.0	90.1	87.8
Average Weekly Earnings	$	236.8	243.1	247.8	251.6	256.8	249.8

*** Historical Data**

5 per cent when compared with the projected second quarter. There will be some increase in the fourth quarter.

Calculations here show that the main declines will be in losses of the automobile makers, steel producers, chemical and plastics, and aircraft companies. On the other hand, good profit results are expected in oil, electricity, banking, communications, food, machinery (especially electrical), and electronics.

The KEDI projection concerning profits is more optimistic than those of some other forecasters. It is not felt here that profits will drop by 18 or 20 per cent in the third quarter and drop further in the last quarter. Nor is it foreseen here that profits over the course of the downturn will drop by as much as 23 per cent. As can be seen from data in Table 06., after tax profits will be $146,2 billion in the third quarter and will go up to $149,7 billion in the fourth quarter.

The projection here for personal income and its components remains basically unchanged. The data for employee compensation has been reduced somewhat due to a small increase in the projection of the number of unemployed.

1.7 MONEY AND CREDIT

(Table 07. on page 27)

The June data for monetary aggregates and preliminary data the first half of July show sharper gains in the money supply. For example, in

June the basic money supply, M1-A jumped ahead at an annual rate of 11.4 per cent. It had declined during the first five months of this year.

In June, M-2, which includes savings deposits and is a broader measure, grew at an annual rate of 17.1 per cent. That brought its growth rate for the first half of this year to 7.6 per cent which is within the target range of the Federal Reserve.

Commercial and industrial loans were up. There had been some declines in June, but in the week ending July 2, such loans moved up by $1.22 billion to total over $154.28 billion.

However, the future growth of monetary aggregate and loans will critically depend on the policy of the Federal Reserve; if it will start tightening the policy again, we can expect that the rest of the year will be flat both for monetary aggregates and loans. The forecast by KEDI for this year shows that M1-A will grow by 4.3 per cent. In 1981, it will expand by 8.1 per cent. This year, M-2 is seen increasing by 6.8 per cent. Next year that growth is projected at 8.1 per cent.

Compared with recently released Federal Reserve targets for monetary growth, this Institute's figures are higher. The Federal Reserve growth target for M1-A in 1981 is in the 3 to 5.5 per cent range. For M-2, the growth target they have is 5.5 to 8.5 per cent which is a bit lower than the 1980 range of 6 to 9 per cent. The target for M-3 will

TABLE 07. MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	363.8	374.8	371.2	382.3	389.6	379.4
Time Deposits, Adjusted	bil.$	1471.4	1543.6	1570.1	1590.3	1612.4	1578.9
Consumer Instal. Credit	bil.$	311.1	307.6	301.1	302.4	306.7	306.7
Commerc.and Ind. Loans at Banks	bil.$	290.5	302.7	301.7	303.2	308.9	308.9
Negotiable Cert.of Deposits	bil.$	115.6	117.2	121.4	122.8	128.5	128.5
Mortgages at S&L Assns.	bil.$	475.8	479.3	479.1	480.2	485.3	485.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposits	bil.$	379.4	394.9	406.2	413.8	417.6	408.1
Time Deposits, Adjusted	bil.$	1578.9	1670.2	1699.7	1726.5	1730.3	1706.7
Consumer Instal. Credit	bil.$	306.7	309.8	313.0	315.9	321.6	321.6
Commerc.and Ind. Loans at Banks	bil.$	308.9	314.6	318.7	324.2	327.6	327.6
Negotiable Cert.of Deposits	bil.$	128.5	131.3	134.7	136.3	140.2	140.2
Mortgages at S&L Assns.	bil.$	485.3	491.6	504.8	511.9	518.7	518.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency+Demand Deposts	bil.$	408.1	421.5	426.8	432.8	440.7	430.5
Time Deposits, Adjusted	bil.$	1706.7	1732.5	1748.7	1762.7	1785.3	1757.3
Consumer Instal. Credit	bil.$	321.6	326.8	330.7	337.8	344.8	344.8
Commerc.and Ind. Loans at Banks	bil.$	327.6	330.4	335.8	338.2	343.1	343.1
Negotiable Cert.of Deposits	bil.$	140.2	145.1	148.7	153.6	158.9	158.9
Mortgages at S&L Assn.	bil.$	518.7	529.3	542.6	561.4	573.2	573.2

*** Historical Data**

remain at the 1980 rate of 6.5 to 9.5 per cent. Bank credit also has the same target next year as this; namely, 6 to 9 per cent. In general, the idea of the Federal Reserve is one of reducing money supply targets by about 0.5 per cent next year.

At the present time, that seems to indicate the continued pursuit of a restrictive monetary policy this year and in 1981. Chairman Paul Volcker said in late July that tax and spending policies should have the same restraint as the Federal Reserve does with monetary policy. His testimony before Congress gave the message that he does not want to risk greater inflation in any attempts to strengthen the economy.

It is the position at KEDI that the growth rates set by the Federal Reserve are TOO LOW. If **followed,** they will again contribute to the slowdown in the growth of the economy just when it will be starting to rebound from the slump.

1.8 INTEREST RATES

(Table 08. on page 30)

KEDI's prediction for short-term interest rates is as follows: the rates will gradually decline for a short time. In the last months of the year, they will resume the upwards trend. This Institute sees, for example, the prime rate bottoming at 10.5%, and its year end rate at 11.0%.

For long-term interest rates, KEDI's prediction is that they already have reached the bottom. A gradual trend will take place soon.

The Federal Reserve is in an awkward position. On July 27, it had to decrease its discount rate from 11 to 10 per cent to avoid the unnatural situation of the prime rate and many of short-term rates slipping below the Federal discount rate. If the short-term rates continue declining, then the Federal discount rate will have to be decreased again -- and that would undermine the international position of the dollar.

It is the assumption of this Institute, that in the near future the Federal Reserve has to resume the pursuit of some sort of restrictive policy concerning higher interest rates. Indications are, that foreign countries will not follow the Americcan lead in reducing interest rates. The gap between the U.S. and foreign interest rates is widening. Calculations show, that if the Federal Reserve again lowers its discount rate, and foreign interest rates do not move downwards, then that move will push down the dollar rate of exchange from about 1.7 German Marks to 1.5; the English pound from $2.2 to 2.5, and the Swiss franc from $1.6 to 1.4, with all the accompanying inflationary consequences.

From the point of view expressed in the preceeding paragraphs, the prediction of many forecasters about the prime rate falling below 10 per cent in the coming months seems to be overly optimistic. Some economists with investment concerns have been saying that the prime rate will fall to 10 per cent or less by October. Others indicate

TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.19	13.35	9.97	9.04	9.63	10.50
Prime Rate	%	12.76	16.39	15.74	11.06	11.02	13.55
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.89	11.14	12.63
Aaa Bonds Rate	%	9.63	12.14	11.05	10.83	10.91	11.23
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.54	10.[illegible]9	10.81
Standard & Poor's 500 Average	1941-43=100	102.83	110.30	108.40	105.31	101.26	106.32

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.50	9.81	10.12	10.31	10.06	10.08
Prime Rate	%	13.55	11.14	11.24	11.53	11.93	11.46
Mortgage Rate, New Homes	%	12.63	11.26	11.28	11.50	11.53	11.39
Aaa Bonds Rate	%	11.23	10.26	10.95	10.63	11.26	11.75
Long Term Govt. Bonds Yield	%	10.81	10.24	10.28	10.40	10.62	10.39
Standard & Poor's 500 Average	1941-43=100	106.32	103.45	104.06	108.84	111.24	106.98

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.08	10.24	11.03	11.51	11.76	11.14
Prime Rate	%	11.46	11.37	11.02	11.24	12.06	11.42
Mortgage Rate, New Homes	%	11.39	11.17	11.36	10.80	10.24	10.89
Aaa Bonds Rate	%	11.75	11.02	10.76	10.20	10.01	10.50
Long Term Govt. Bonds Yield	%	10.38	10.31	10.25	10.32	10.45	10.33
Standard & Poor's 500 Average	1941-43=100	106.98	102.34	100.41	105.26	112.14	105.04

*** Historical Data**

that 10 per cent would be the lowest rate in September. Some in the banking industry pointed to the year end as being when the low point will be reached. The chief economist with Manufacturers Hanover Trust Co., said that the rate would be lower than 10 per cent by the end of August and down to the 8½ per cent range by the end of the year.

Other economists are more cautious. For instance, chief economists for Equitable Life Assurance Society forecast that there would be very little downward change in long term rates and that by early 1981 short terms rates would begin to increase again.

An investment brokerage firm official indicated that the prime rate would likely fall to the 10 or 10½ per cent range by the end of September and go a bit below that during the fourth quarter. However, he did not expect it would go lower than 9½ per cent this year.

As was stated earlier, KEDI predicts the lowest point of the prime rate to be 10.5 per cent.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, GNP in current dollars for the second quarter 1980 has been selected for comparison. Actual data have been communicated by the U.S. Department of Commerce, Bureau of Economic Analysis. Forecast data are from Business Forecasts 1980, published by the Federal

Reserve Bank of Richmond, Va., February 1980, Library of Congress Catalogue Card No: 75-189493. **The table below shows the predictions** of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

GROSS NATIONAL PRODUCT

(in billion dollars, seasonally adjusted
at annual rates, 2nd quarter 1980)

Actual: 2523.4

FORECASTER Level:	Page in Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	2501.5	-.9
Chemical Bank	21	2535.1	+.5
The First National Bank of Chicago	22	2493.0	-1.2
Median Forecasts of Business	23	2497.0	-1.1
Georgia State University	24	2491.4	-1.3
Peter L. Bernstein, Inc.	25	2521.0	-.1
The UCLA National Business Forecast	26	2484.2	-1.6
Cyrus J. Lawrence Incorporated	27	2486.8	-1.5
Bankers Trust Company	28	2505.5	-.8
Goldman Sachs	29	2545.0	+.8
The Fidelity Bank	30	2538.0	+.5
KEDI	31	2522.8	.0
U.S. News and World Report	32	2463.3	-3.4
Data Resources, Inc.	33	2540.5	.7
Equitable Life Assurance Society	34	2526.9	+.1
Morgan Guaranty Trust Company	35	2519.7	-.2
Argus Research Corporation	36	2496.7	-1.1

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AND DEVELOPMENT
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Vol. 6, No. 3, August 31, 1980

KEDI ECONOMIC SURVEY

AUGUST ISSUE

August 31, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMY SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

Publication No. 088000514
KEDI August 31, 1980

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Modest growth is seen for the fourth quarter. The long term projection is maintained. Carter's August 28 proposals are viewed positively except for the fact that consumers should receive more of a tax break.

1.02 ASSUMPTIONS 4

The assumptions about some U.S. crops in 1981 and of the international outlook have been changed slightly.

DETAILED FORECASTS

1.1 REAL GROWTH 7

There are only some minor changes in this forecast when compared with that in the July issue of this survey. The good news of a smaller trade gap, rise in the leading indicators, housing starts, retail sales and durable orders is somewhat offset by the declines in auto sales, building outlays, and industrial production.

1.2 PRICES 11

The projection is maintained for an 11 percent gain in consumer prices this year. The steep rise in producer prices had been anticipated. Slight adjustment in the forecast of consumer food prices was necessitated by the weather.

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KEDI has not changed its forecast for the unemployment rate. It will average about 7.5 percent this year. Other forecasters are just beginning to catch up to the less pessimistic view maintained here.

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Both housing starts and sales showed some gain, but building awards declined and the recent interest rate gains should sober the over-enthusiastic. Definite receovery will not begin until 1981.

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The projection for the Federal deficit has been increased a bit. Lower corporate profits and more Federal spending than had been calculated earlier affected the projection.

1.6 INCOME 19

The decline in corporate profits was not anticipated. Unlike other forecasters, recovery is expected for such profits during the fourth quarter.

1.7 MONEY AND CREDIT 22

The projection concerning the money supply remains unchanged. Now that the last of the heavy-handed restrictions by the Fed's on credit have been removed, a faster growth in consumer credit is expected.

1.8 INTEREST RATES 24

KEDI has been right on the mark. This is confirmed by the recent rise in interest rates.

2.0 COMPARISONS AND ACCURACY OF PREDICTIONS 27

In this issue, the second quarter 1980 Gross National Product in constant dollars has been selected for comparison. KEDI's forecast has been close to the target.

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The long-term projection by this Institute remains unchanged. The general outlook for the last part of this year and for the years through 1985 follows:

1980: modest growth in the fourth quarter,

1981: slow growth for most of the year with a faster rate in the last months,

1982: economic activities will continue improving but still be about average,

1983: significant growth,

1984: some slowdown (A "Brave New World" is not foreseen.)

1985: return to a more normal level of economic activity.

Concerning the tax package, the assumption of any cut during this year had been dropped here months ago. It is now more certain that no such action will take effect during 1980. Congress is scheduled to adjourn in early October, so there is hardly time to pass any tax cut. Also, the White House does not want to push for any election-year cut that makes calm, reasonable legislation less likely -- or so they say.

It has been assumed here for quite some time that there would be a major tax cut in 1981. That is now becoming a reality. The most recently announced proposal by the Administration in the last week of August was for an "economic renewal" package of $ 30 billion, including a tax cut of roughly $ 27 billion which would benefit business a bit more than individuals according to preliminary reports. The KEDI assumption had been that taxes would be cut by $ 10 billion for companies, and by $ 20 billion for individuals. That was in the ball park of the study of the Joint Economic Committee of Congress (the Bentsen plan). In the Senate Finance Committee, both the Republicans and the majority Democrats were happy to combine forces to push for a tax cut. Tax reductions for individuals amounted to about $ 22 billion in this plan.

The proposal also included much faster rates of tax write-offs for investment by businesses in plants and equipment. Roughlv $ 10 billion would be chopped off business taxes by the Bensten plan.

Carter's proposal is seen here as being on the right track. The $ 15 billion that Carter offers to businesses is seen here as a positive step that will benefit that area starting in 1981 and gaining momentum in the following years. However, it would be better if the consumer side of the economy got a bigger piece of the pie to help compensate for the bite that the gains in social security taxes will be taking and the costs of "bracket creep" in income tax payments. Those two together will add about $ 20 billion to consumer bills next year. The Carter tax cut of $ 12 billion still leaves the average citizen in a bind. A tax cut in an amount closer to $ 20 billion would lessen that bind and also provide a bit more energy to our consumer-oriented economy.

Using the KEDI original proposal yielded a 1981 year employment of 104 million and an additional $ 43 billion in GNP. Carter's late, little plan, according to the Administration, would yield 101 million employed and an added $ 51 billion in GNP. That cannot be since one cannot expect any drastic increase in productivity in the next year. It just won't fly. Employment will be higher than that and growth not quite that much, according to calculations here using Carter's proposal.

KEDI's calculations as to December, 1981 prices and unemployment as compared to the year-earlier figures are not the same as those of the Administration. The predictions for GNP are not as far apart. These estimates assume enactment of the tax proposals.

Percentage change 1980 to 1981

	Administration	KEDI
GNP, const. $	+3.6	+3.4
Consumer prices in Dec. 1981	+10.5	+11.7
Unemployment rate, in Dec. 1981	8.1	6.7

As can be seen, KEDI's estimate here show inflation a bit higher, unemployment, quite a bit lower, and a somewhat lower rate of growth when compared to estimate for the economy by the Administration. Any proposal must be passed within the first two months of 1981 in order to affect the economic scene. It is very likely that quick action will be taken to make the cuts realities.

This Institute has been stating that interest rates had already reached their low point and would begin to move in an upward direction again. Many other forecasters were predicting further drops. KEDI has been shown to be on the right track as the prime rate went up in late August. For the majority of banks, it was in the 10.45 to 11 percent range, and indications are that interest rates will keep increasing.

KEDI's forecast is highlighted on the following page, Table 1.0.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the July, 1980, the changes concern the Assumptions No. 6 and 8.

1. In 1980, approximately 95 % of the demand for oil in this country will be met. In 1981 all but basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1420.8	1445.6	1701.3
Index of Industrial Production	1967 =100	152.2	146.6	150.8	171.2
Capacity Utilization	%	85.7	79.1	82.3	87.0
Unemployment Rate	%	5.9	7.5	7.2	6.1
Private Housing Starts	mil. units	1.721	1.189	1.384	1.950
Car Sales	mil. units	10.8	8.2	9.7	12.3
Implicit GNP Price Deflator	1972 =100	165.5	180.7	198.3	283.1
Consumer Price Index	1967 =100	217.5	247.3	273.6	398.4
Producer Price Index	1967 =100	236.2	270.4	301.9	421.6
Federal Deficit	bil. $	-11.2	-42.9	-46.0	-21.0
Personal Income	bil. $	1924.2	2099.7	2344.3	3351.8
Prime Rate	%	12.76	13.68	11.64	10.16
Mortgage Rate	%	10.60	12.66	11.41	10.08
Currency plus Demand Deposits	bil. $	363.8	380.2	411.6	626.8
Commercial and Industrial Loans	bil. $	290.5	306.9	329.5	509.1

3. In the summer, no more tightening in fiscal and monetary policies will occur. The Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general. In the last months of this year, some tightening of monetary and fiscal policies is expected.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton spring wheat, winter wheat and some other crops have been further reduced.

7. It is projected here that the rates of growth in 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	2.8%	2.6%	2.9%
Italy	1.9	1.9	2.0
Japan	1.7	1.9	2.0
Great Britain	1.7	1.8	2.1
France	2.0	2.2	2.3

8. Last month the data for the forecast for 1981 and beyond were changed to include a tax cut of $ 30 billion which will take effect in 1981.

1.1 REAL GROWTH

(Table 1.1 on page 12)

As compared with the previous forecast, there are only minor changes in the current one, except for corporate profits. The projection for recovery from the downturn starting the last quarter of this year and gradual growth of a modest scale during 1981 is maintained. That in itself is good news.

There is more good news. Leading economic indicators showed a gain of 2.5 percent in June and 4.6 percent in July. They were the first and second increases in a year. Commerce Secretary Philip Klutznick was moved to express the view that perhaps the low point of the downturn was reached earlier than many expected. He did indicate that output would not start to expand right away. For one thing, inventories need to be reduced. The Index of Leading Economic Indicators has less than a grand rating when it comes to being used as a tool in forecasting. Still, it does deserve some credit and mention.

Secondly, the trade gap was less wide in the second quarter of this year. Oil conservation and lessened economic activity cut into imports. This deficit, measured on a balance-of-payments basis was a seasonally adjusted $ 7.7 billion in the second quarter as compared to $ 10.9 billion for the first quarter.

The U.S. current account is expected to be in the black this year. In the first quarter of this year the account was still in the red, but in the second quarter, there was a surplus of about $ 5 billion at an annual rate.

Thirdly, in a survey of purchasing managers by the National Association of Purchasing Management Inc., it was found that 16 percent reported they had more new orders in July than in June. That was a gain from the June level when only 5 percent reported more new orders. Also, 51 percent reported that their inventories were lower in July than in June.

Fourth, retail sales actually went up in July. Such sales showed a seasonally adjusted gain over June of 2 percent. During the first four months of the year these sales were down. Now, there has been two straight months of gains. When July of this year is compared to July of 1979, total retail sales show a gain of 5.5 percent.

Fifth, it is good news of a very solid nature to note that durable orders went up in July. These new orders by manufacturers went up to a seasonally adjusted rate of $ 72 billion from the June level of roughly $ 66 billion.

In the sixth place, housing starts rose again. In July, housing starts went up by 4.8 percent from the June level, seasonally adjusted. Still, that was about 28 percent lower than the level for July in the prior year. Some journalists have exaggerated the good news and given an overly optimistic tone to the economic scene. As an antidote to the gloom and bad spirits of some economists, it is pleasant to swallow. However, the "patient" is not fully recovered and needs more time for recovery.

Building outlays went down in June. Construction spending in that month was off from the prior month by 2.3 percent. That was less than the May-to-June drop of 2.8 percent. The June level was 4.7 percent below the year-earlier rate.

The factory operating rate in July was at the lowest rate since July of 1975. This July, factories were operating at 74.2 percent of capacity. The June rate was 75.8.

Auto output is still in a slump. In July, auto output of American cars was down by almost 29 percent from the year-earlier level. In the first 10 days of August, sales of domestic cars were off by 31 percent from the comparable 1979 level. That was about what had been expected. One car maker showed a gain. It is thought provoking to note that is was Volkswagen of America Inc.

Plans for auto production are at the lowest level they have been since well before the recession of 1974-5. During the fourth quarter, plans calls for production of about 1.7 million cars. That is about 6 percent lower than the rate (which was low itself) in the last quarter of last year.

Perhaps, there is comfort in looking on the bright side of the latest Transportation Department report on small car safety. Crash tests done at 35 miles per hour into fixed barriers showed that the U.S. compacts were safer than 10 of the 11 foreign cars tested. Joan Claybrook noted that U.S. models were generally made stronger structurally. She was quite critical of two Toyota models. The only foreign car that passed the test was the Fiat Strada. The only domestic car tested, a Chevrolet Chevette, 1980 model, also passes the test. This means the passenger compartment remained intact after the crash. (That could help sales eventually. Who wants their nose or kneecaps rearranged.)

Industrial production was down a seasonally adjusted 1.6 percent in July. That was less than the 2.4 percent average decline in each of the preceding months, but it was the sixth striaght month of decline.

Steel production is still on a low level. For that industry, no significant recovery is seen by KEDI until the second half of 1981.

The forecast here for agricultural production was revised downward in previous issues. As the hot, dry spell continues, additional downward revision is needed. The Agriculture Department has finally revised some of its estimates.

They now see the corn harvest as being about 9 per cent lower this year than last. This Institute had estimated the decline in the last issue as being in the 7 percent range. The government also expected that the cotton crop will be 12 percent lower than last year, soybeans, down 17 percent, and sorghum will fall by about 32 percent. Wheat is unaffected as most was harvested before the drought.

The news is mixed but overall, it points to confirmation of the forecast here for some further improvement of the U.S. overall economic picture in coming months.

1.2 PRICES AND NOMINAL GNP

(Table 1.2 on page 14)

There are no significant changes in this issue regarding prices. The projection is maintained by KEDI that there will be no meaningful drop in the inflation rate this year or next -- sad to say. Do not expect relief from current rates of inflation any earlier than 1982. Recent developments in prices show the continuation of inflationary trends.

Producer prices of finished goods went up at a seasonally adjusted rate of 1.7 percent in July from the June level. Such gains have beeh built into the forecast here since the year 1979. Most of the gain was attributed to advances in consumer food prices. Consumer food prices went up an adjusted 3.8 percent in July. It is not comforting to think that food price inflation has moved in replacing energy price inflation -- for the time being.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1410.9	1408.9	1418.6	1420.8
Index of Indust. Production	1967=100	152.2	152.1	144.7	143.5	145.9	146.6
Unemployment Rate	%	5.9	6.1	7.5	8.1	8.0	7.5
Capacity Utilization Rate	%	85.7	85.1	77.0	76.4	78.0	79.1
Private Housing Starts	mil. units	1.721	1.330	1.048	1.160	1.218	1.189
Car Sales	mil. units	10.8	9.5	7.7	7.8	7.8	8.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1420.8	1426.3	1438.2	1453.1	1468.2	1446.5
Index of Indust. Production	1967=100	146.6	147.6	149.9	151.8	153.9	150.8
Unemployment Rate	%	7.5	7.7	7.2	7.0	6.8	7.2
Capacity Utilization Rate	%	79.1	79.2	81.0	84.0	84.8	82.3
Private Housing Starts	mil. units	1.189	1.143	1.351	1.543	1.495	1.384
Car Sales	mil. units	8.2	8.7	9.5	10.1	10.6	9.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1446.5	1480.1	1498.2	1516.3	1526.4	1505.3
Index of Indust. Production	1967=100	150.8	156.1	157.6	159.4	160.7	158.5
Unemployment Rate	%	7.2	6.7	6.4	6.2	6.1	6.4
Capacity Utilization Rate	%	82.3	85.8	86.1	86.5	86.8	86.3
Private Housing Starts	mil. units	1.384	1.397	1.623	1.669	1.664	1.588
Car Sales	mil. units	9.7	10.1	11.1	10.8	11.3	10.8

* Historical Data

Farm prices went up by 5.2 percent during July. That was the biggest monthly gain since 1974. The chief economist for the Agriculture Department noted that such a gain seems large, but such prices have been at very low and unprofitable levels for farmers.

The gain in consumer food prices for the next year had been projected in the 8 or 9 percent range by the Agriculture Department. That Department recently indicated that crop damage could add another percentage point to that forecast for the next year. KEDI projection, maintained since June, 1979, shows the 10 percent gain for the next year.

There were analysts that predicted consumer prices would rise at annual rates of gain of perhaps 6 or 7 percent in the latter half of this year. Most have revised such forecasts upward and predict an annual rate of gain for such prices of about 10 percent during the rest of this year.

KEDI maintains its projection of 11 percent inflation rate for 1981 when measured by the Consumer Price Index, and 9.7 percent inflation rate when measured by the Implicit GNP Price Deflator.

1.3 EMPLOYMENT AND LABOR

(Table 1.3 on page 16)

KEDI maintains its forecast of the unemployment rate which is optimistic when compared to some other forecasters. Their predictions of an 8 to 9 percent rate for the rest of this year and during 1981 is seen here as being

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967= 100	217.5	236.6	245.0	250.8	256.9	247.3
Producer Price Index, NSA	1967= 100	236.2	258.7	263.7	273.8	285.2	270.4
Implicit GNP Price Deflator	1972= 100	165.5	174.5	178.9	182.6	186.9	180.7
Gross National Product	bil. $	2369.5	2520.8	2524.6	2572.6	2651.4	2567.4
Personal Cons. Expenditures	bil. $	1510.0	1629.5	1628.6	1673.5	1722.4	1663.5
Gross Private Dom. Investment	bil. $	387.3	387.7	370.3	377.4	393.1	382.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967= ·100	247.3	261.1	264.6	278.9	284.6	273.6
Producer Price Index, NSA	1967= 100	270.4	293.4	298.1	304.6	311.5	301.9
Implicit GNP Price Deflator	1972= 100	180.7	190.3	195.3	201.0	206.5	198.3
Gross National Product	bil. $	2567.4	2714.2	2808.8	2920.7	3031.8	2868.9
Personal Cons. Expenditures	bil. $	1663.5	1775.6	1834.3	1908.1	2002.6	1880.2
Gross Private Dom. Investment	bil. $	382.1	406.1	418.7	430.2	445.8	425.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	273.6	292.6	299.8	306.0	312.2	302.7
Producer Price Index, NSA	1967= 100	301.9	322.5	328.2	336.6	341.4	332.2
Implicit GNP Price Deflator	1972= 100	198.3	208.2	212.4	216.4	220.6	214.4
Gross National Product	bil. $	2868.9	3081.6	3182.2	3281.2	3367.2	3228.1
Personal Cons. Expenditures	bil. $	1880.2	2030.5	2090.4	2150.1	2200.7	2117.9
Gross Private Dom. Investment	bil. $	425.2	452.8	466.7	480.2	492.1	473.0

* Historical Data

too high. The unemployment rate calculated by this Institute will average 7.5 percent this year and will drop to an average of 7.2 percent in 1981.

Some forecasters are beginning to adopt the view that has been maintained here. The unemployment rate did not go up in July. It remained at the 7.8 percent level prompting a Labor Department economist to speculate on the possibility of a leveling trend. Robert Gough of Data Resources Inc. commented that the stable July rate is strongly connected to the retail sales gain of the prior month which caused employers to hold on to part-time workers. He indicated that if sales continue to gain, the rate of unemployment could stay below the 8.5 percent rate commonly expected. As was stated, this Institute sees the rate going lower.

Total employment went up in July by 0.5 percent to an adjusted 97 million workers. The number unemployed in July was up 2.5 percent from the June level on an adjusted basis to 8.2 million. The average workweek went to 35 hours from the June level of 35.1.

1.3 HOUSING

(Table 1.3 on page 18)

There are some encouraging signs of a bit of growth in the housing industry as both starts and sales rose, but building awards fell and interest rates are an ongoing concern.

In July, housing starts went up by 4.8 percent from the June level. The

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TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	96.6	97.5	97.2
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.2	94.2	93.8
Unemployment Rate	%	5.80	6.13	7.46	8.11	8.03	7.45

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.2	98.4	99.3	100.2	101.1	99.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	93.8	95.1	96.0	96.8	98.0	96.5
Unemployment Rate	%	7.45	7.71	7.18	7.04	6.82	7.19

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.3	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.8	102.9	103.9	105.2	103.5
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.5	98.6	99.5	100.5	101.6	100.0
Unemployment Rate	%	7.19	6.71	6.41	6.16	6.09	6.17

* Historical Data

seasonally adjusted annual rate for July was 1.266 million units. These private housing starts were still over 28 percent below the year-earlier level.

In June, new house sales went up by 16 percent from sales in May, seasonally adjusted. Still, the June sales this year of 593,000 new homes is well below last year's annual rate in June of 698,000. The average price of houses this June was $ 77,900. The median price (less anxiety-attack producing to many prospective buyers) was $ 66,800.

Building awards showed an 18 percent decline in June from the year-earlier level. Residential construction was down by 30 percent from the June, 1979, level. Still, June of this year did exceed the May total.

As interest rates began to move upward again late this summer, that exerted a dampening force on home sales. In many cases, mortgage rates have moved up a full percentage point in recent weeks.

KEDI maintains its forecast. As calculations here for total housing starts this year are approximately 1.2 million units. Yes, some of the data are encouraging, but it is still not a situation of clear recovery. For some time, one can expect erratic movements in this sector. A definite recovery will not start before 1981.

1.5 GOVERNMENT BUDGETS

(Table 1.5 on page 20)

As compared with the previous forecast, the main adjustment occurred in the

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Single-Family Housing Starts	mil.	1,169	801	669	701	712	721
Multifamily Housing Starts	mil.	.551	529	379	459	506	468
Mobile Home Shipments	mil.	283	257	180	183	195	204
Housing Permits Issued	mil.	1.535	965	885	1026	995	968
Construction Costs-Commerc.	1972=100	180.2	193.5	197.0	198.7	200.6	197 5
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	198.4	203.2	197.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	721	734	798	953	901	847
Multifamily Housing Starts	mil.	468	409	553	590	594	537
Mobile Homes Shipments	mil.	204	211	253	261	272	249
Housing Permits Issued	mil.	968	989	1194	1375	1394	1238
Construction Costs-Commerc.	1972=100	197.5	207.2	214.5	217.6	227.9	216.8
Construction Costs-Resident.	1972=100	197.6	208.7	213.4	218.1	228.5	217.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	847	854	983	1038	1054	972
Multifamily Housing Starts	mil.	537	543	640	631	650	616
Mobile Homes Shipments	mil.	249	264	295	301	285	286
Housing Permits Issued	mil.	1238	1303	1641	1738	1724	1602
Construction Costs-Commerc.	1972=100	216.8	237.3	248.5	254.1	263.5	250.9
Construction Costs-Resident.	1972=100	217.2	238.7	250.4	256.2	265.7	252.8

* Historical Data

projection of the Federal deficit in 1980. KEDI has increased the projected deficit for this calendar year from $ 29.6 to $ 42 billion. For the year 1981, last month's forecasted deficit has been adjusted upwards here by approximately $ .6 billion; and for 1982, by $ 6.0 billion. The reasons for changing the estimates are as follows: the lowering of the estimate of corporate tax accruals in 1981 and upward revision of the forecast of Federal expenditures in 1982.

This Institute's projection of the Federal deficit in fiscal 1981 (which starts in October 1980) is $ 38 billion. That is above the $ 30 billion projected recently by the Congressional Budget Office. The incorporation of Carter's proposals made on August 28, and discussed in section 1.1 of this issue, has been estimated by others as being connected to a deficit of $ 36 billion. As can be seen, the KEDI figure is $ 2 billion higher. It is likely that both the Administration and this Institute will be doing some upward revisions.

The forecast for state and local budgets remains essentially unchanged.

1.6 INCOME

(Table 1.6 on page 23)

In mid-August, it was announced that after-tax profits fells by 18.2 percent during the second quarter from the first quarter level. During the second quarter the profit rate was down by 9 percent from the year-ago figures.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	243.1	241.1	252.0	245.3
Corporate Profit Tax Accruals	bil. $	78.5	86.8	67.3	70.6	77.8	75.6
Surplus./Deficit	bil. $	-11.2	-22.9	-48.0	-54.5	-46.1	-42.9
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	40.1	40.9	42.1	40.7
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.3	12.2	13.1	13.3
Surplus./Deficit	bil. $	24.7	24.6	20.2	19.9	20.8	21.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	245.3	267.0	285.9	299.4	311.6	291.0
Corporate Profit Tax Accruals	bil. $	75.6	81.3	97.6	101.3	104.2	96.1
Surplus./Deficit	bil. $	-42.9	-40.2	-47.1	-50.2	-46.3	-46.0
State and Local Governments:							
Income Taxes	bil. $	40.7	43.6	45.4	47.0	48.8	46.2
Corporate Profit Tax Accruals	bil. $	13.3	14.1	15.6	17.7	19.4	16.7
Surplus./Deficit	bil. $	21.4	21.6	23.4	24.1	25.6	23.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	291.0	321.2	332.8	340.5	347.3	335.5
Corporate Profit Tax Accruals	bil. $	96.1	109.7	118.1	122.5	124.7	118.8
Surplus./Deficit	bil. $	-46.0	-33.2	-29.5	-25.1	-23.4	-27.8
State and Local Governments:							
Income Taxes	bil. $	46.2	50.8	51.9	54.1	56.3	53.3
Corporate Profit Tax Accruals	bil. $	16.7	22.7	24.8	26.0	27.8	25.3
Surplus./Deficit	bil. $	23.7	26.3	28.4	29.7	30.5	28.7

* Historical Data

That decline was unexpected. This Institute estimates that the previous forecast here for such profits was in error due to underestimating the large bite that the windfall profits tax would take. Economists from Chase Econometrics, Data Resources Inc. and Evans Economics all agreed that corporate profits will continue to decline during the rest of this year, but not at such a high rate of decline. This Institute has a somewhat different projection.

The major adjustment in this forecast, when compared to the previous one, is in corporate profits due to reasons covered in the previous paragraph. The new projection shows that third quarter corporate profits will be roughly in line with the second quarter. Unlike the three forecasters cited earlier, however, it is anticipated here that there will be a slight upturn in such profits during the fourth quarter. Towards the middle of 1981, a more normal level of profits will be achieved.

The KEDI projection of corporate profits by industries shows that during this year the main profit makers will be petroleum products, banks, textiles, utilities, machinery, retail stores, food industry, mining, nonferrous metals production and electrical equipment.

The main losers are predicted to the automobile industry, steel and iron, building materials and supplies, the rubber industry, plastics and synthetic materials and chemicals.

Personal income went up in July by an adjusted 1.4 per cent from the total in the prior month. The gain was due mostly to the cost-of-living increases in Social Security payments and other social programs, and higher totals for unemployment payments.

It is realistic to note that disposable income, after adjusting for inflation, was down by 2.2 percent from January through May (latest available).

The KEDI's projection shows that this unfavorable trend will continue throughout the rest of the year and 1981.

1.7 MONEY AND CREDIT

(Table 1.7 on page 25)

The fourth assumption (on page 6) made here for many months concerning long-term Federal Reserve policy comes to mind when pleasantly pondering the mid-August Senate Banking Committee recommendation that the Federal Reserve set long-term growth targets for the money supply.

The projections here concerning the money supply remains basically unchanged. There has been insignificant adjustment in the commercial and industrial loans, mortgages, and certificate of deposits indicators. The extent of the drop in consumer credit has been anticipated here.

June was the third straight month to show a decline from the prior month in the amount of consumer installment credit outstanding. Such credit was down an adjusted annual rate of 13.5 percent between May and June.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
Personal Income	bil. $	1924.2	2057.4	2078.5	2102.7	2159.0	2099.7
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.0	1784.7	1834.8	1777.9
Compensation of Employees	bil. $	1459.5	1555.2	1562.1	1591.4	1652.9	1590.4
Corp. Profits After Tax	bil. $	144.6	158.0	129.3	130.7	136.8	138.1
Personal Saving	bil. $	73.2	64.4	83.6	81.7	84.5	78.6
Average Weekly Earnings	$	218.7	225.2	226.0	228.7	231.4	235.3
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2099.7	2214.1	2287.6	2396.2	2479.2	2344.3
Personal Dispos. Income	bil. $	1777.9	1874.8	1928.8	2029.3	2099.3	1983.1
Compensation of Employees	bil. $	1590.4	1703.8	1756.6	1856.8	1927.8	1811.3
Corp. Profits After Tax	bil. $	138.1	145.9	153.7	169.5	175.1	161.1
Personal Saving	bil. $	78.6	83.2	82.8	83.9	82.7	83.2
Average Weekly Earnings	$	235.3	234.2	238.5	240.3	245.2	239.6
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2344.3	2504.3	2590.2	2670.3	2728.6	2623.4
Personal Dispos. Income	bil. $	1983.1	2115.8	2188.5	2254.1	2310.0	2217.1
Compensation of Employees	bil. $	1811.3	1949.9	2028.6	2092.1	2168.1	2059.7
Corp. Profits After Tax	bil. $	161.1	178.4	180.6	183.1	185.2	181.8
Personal Saving	bil. $	83.2	85.3	90.2	93.5	27.4	74.1
Average Weekly Earnings	$	239.6	248.7	251.6	256.7	262.4	254.9

* Historical Data

The last of the credit restraints originally imposed in mid-March were eliminated in early July -- thank goodness.

The reader of previous issues knows that KEDI has always felt that March action was a case of action far in excess of the need for it. It was a case of "overkill" if there ever was one. Economists are speculating as to whether the final elimination of the credit restraints will lead to some growth in credit buying later this year. This Institute predicts that there will be growth. The reader is invited to look at the quarterly data on consumer credit contained in Table 1.7 on page 25 .

KEDI has not changed the assumption that the Federal Reserve will tighten credit but it will not be before the end of this year, because tightening of monetary and credit policies at this time would prolong the present slump in the economy.

Since the middle of the year, the basic money supply, M1-A, has jumped at an annual rate of 13.8 percent. That is almost twice the target set by the Fed's for the third quarter. This Institute does not anticipate that such growth rates will necessitate the tightening of the monetary policy in coming months.

1.8 INTEREST RATES AND YIELDS

(Table 1.8 on page 26)

The recent increases in interest rates show definitely, that the time of declines in interest rates is over. That corresponds precisely with the

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979*	1982				1980
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	371.2	382.9	391.7	380.2
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1570.1	1596.4	1616.8	1581.7
Consumer Instal. Credit	bil. $	311.1	307.6	301.1	302.0	306.9	306.9
Commerc. and Ind. Loans at Banks	bil. $	290.5	302.7	301.7	303.2	308.3	308.3
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	122.8	126.7	126.7
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	480.2	485.6	485.6

Indicator	Unit	1980	1982				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	380.2	396.8	409.5	416.8	423.4	411.6
Time Deposits, Adjusted, M2	bil. $	1581.7	1674.3	1705.8	1731.3	1739.8	1712.8
Consumer Instal. Credit	bil. $	306.9	310.1	314.8	317.6	324.5	324.5
Commerc. and Ind. Loans at Banks	bil. $	308.3	314.0	318.9	326.3	329.5	329.5
Negotiable Cert. of Deposits	bil. $	126.7	129.2	130.8	133.4	135.8	135.8
Mortgages at S & L Assns.	bil. $	485.6	491.3	506.0	513.4	520.5	520.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	411.6	426.9	430.7	437.8	445.3	445.3
Time Deposits, Adjusted, M2	bil. $	1712.8	1749.7	1769.2	1790.4	1807.1	1777.4
Consumer Instal. Credit	bil. $	324.5	330.1	335.6	341.2	348.6	348.6
Commerc. and Ind. Loans at Banks	bil. $	329.5	332.1	338.9	343.6	349.0	349.0
Negotiable Cert. of Deposits	bil. $	135.8	139.3	143.1	146.8	151.2	151.2
Mortgages at S & L Assns.	bil. $	520.5	531.1	541.9	559.8	573.1	573.1

* Historical Data

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: August 1980

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.11	9.69	10.50
Prime Rate	%	12.76	16.39	15.74	11.24	11.36	13.68
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.89	11.26	12.66
Aaa Bonds Rate	%	9.63	12.14	11.05	10.83	10.91	11.23
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.34	10.38	10.62
Standard & Poor's 500 Average	1941 - 43=100	102.83	110.30	108.40	103.65	103.27	106.41

Indicator	Unit	1980	1981				1981
			1	2	3		
3 mo Treas. Bills Rate (new issues)	%	10.53	9.84	10.13	10.29	10.06	10.08
Prime Rate	%	13.68	11.42	11.56	11.72	11.87	11.64
Mortgage Rate, New Homes	%	12.66	11.28	11.32	11.51	11.52	11.41
Aaa Bonds Rate	%	11.23	10.26	10.90	10.67	11.28	11.78
Long Term Govt. Bonds Yield	%	10.62	10.25	10.20	10.46	10.65	10.42
Standard & Poor's 500 Average	1941 - 43=100	106.41	103.98	105.78	109.01	111.53	107.58

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.08	10.24	11.08	11.56	11.77	11.16
Prime Rate	%	11.64	11.70	11.46	11.19	11.53	11.47
Mortgage Rate, New Homes	%	11.41	11.43	11.30	10.95	10.36	10.01
Aaa Bonds Rate	%	11.78	11.24	10.86	10.40	10.12	10.66
Long Term Govt. Bonds Yield	%	10.42	10.30	10.21	10.18	10.33	10.26
Standard & Poor's 500 Average	1941 - 43=100	107.58	108.27	101.54	105.16	108.23	105.80

* Historical Data

KEDI prediction that interest rates will have to go up. (KEDI has been one of the few agencies with such a forecast.)

The KEDI projection of the stock market also remains essentially unchanged: some decline in prices of stocks are expected to take place in the coming months. They will not be dramatic. Recovery will take place at the end of this year. Leveling of the stock market is expected throughout 1981 and more significant increases in 1982.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, GNP in constant 1972 dollars for the second quarter 1980 has been selected for comparison. Actual data have been communicated by the U.S. Department of Commerce, Bureau of Economic Analysis. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February 1980, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

GROSS NATIONAL PRODUCT

(in billions of constant 1972 dollars, seasonally adjusted at annual rates, 2nd quarter 1980)

Actual: 1410.9

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	1422.5	+.8

(Table 2.0 cont.)

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	1421.8	+.8
The First National Bank of Chicago	22	1393.0	-1.3
American Statistical Assn. and National Bureau of Economic Research	23	1400.4	-.7
Georgia State University	24	1400.1	-.8
Peter L. Bernstein, Inc.	25	1407.0	-.3
The UCLA National Business Forecast	26	1397.2	-1.0
Cyrus J. Lawrence, Incorporated	27	1397.1	-1.0
Wharton Econometric Forecasting Assoc.	27	1412.0	+.1
Bankers Trust Company	28	1395.3	-1.1
WGN Continental Broadcasting Company	28	1389.5	-1.5
Goldman Sachs	29	1421.0	+.7
The Fidelity Bank	30	1407.0	-.3
KEDI	31	1418.9	+.6
U.S. News and World Report	32	1388.6	-1.4
Data Resources, Inc.	33	1420.9	+.7
Equitable Life Assurance Society	34	1424.0	+.9
Morgan Guaranty Trust Company	35	1413.2	+.2
Argus Research Corporation	36	1412.8	+1.3

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KENT ECONOMIC AND DEVELOPMENT INSTITUTE

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Kent, Ohio 44242/U.S.A.

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Vol. 6, No. 4, September 30, 1980

KEDI ECONOMIC SURVEY

SEPTEMBER ISSUE

September 30, 1980

President: Vladimir J. Simunek

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Editor: Diane L. Lewis

Publication No. 098000524
KEDI September 30, 1980

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

Most economists still were seeing the third quarter as one of decline in September. A few were acknowledging that the economy seemed to be doing better than they had figured it would. After mid-September, Courtenay Slater, Commerce Department chief economist, said that in July or August there was a turn around and that recovery had begun. She indicated that as a guess, there would be a small amount of growth in real GNP this quarter.

The forecast by this Institute for the rest of 1980 remains basically unchanged. For the past several months this year has been forecast here as being, on the average, essentially even with the prior year. The performance of the economy during the third quarter is confirming the outlook held by KEDI. There has been improvement in this quarter -- not decline. For the rest of this year, KEDI expects a bit of growth with no drastic ups or downs.

The general forecast by KEDI for 1981 and the following years is maintained: slow growth next year with acceleration in 1982 and 1983, a slowdown in 1984 and renewed growth during 1985. The view here of the inflation rate also remains unchanged; namely, inflation at a rate slightly above 10 percent a year for the entire 1981-85 span.

Typical of many economist or business news writers is the view that the negative needs emphasis. News of any growth is viewed with great suspicion. Views such as the following reflect this. "The recession may be over, but the recovery will be very, very sluggish." So do writings that say if the recession did end in July, it would be the shortest one ever. Exploring historical precedents for interrupted recessions also fall in this category. The implication is the good news is some kind of fluke. (It reminds one of the child given a pony that responds by being sad becuase than means there will be all that manure.)

It is only during this month that most forecasters have begun to show acceptance of the picture that had been foreseen here. Their predictions of unemployment rates in the 10 percent range, of the "recession" lasting until well into 1981, and of interest rates below 10 percent have all been hurriedly, and perhaps sheepishly, changed with more realistic numbers.

The forecast data here for 1981 and subsequent years has been somewhat changed. due to a change in the assumption about the proposed tax break. The estimate for the tax break has been increased from $ 30 to $ 35 billion.

KEDI has calculated the impact of three alternative tax packages. The first one is the Administration's proposal announced by President Carter calling for roughly $ 30 billion in tax reductions and cuts: approximately $ 12 billion for individuals and $ 18 billion for businesses. The second is the proposal submitted by the Congressional Joint Economic Committee (the Bentsen plan), and supported by the Financial Committee of Congress. That sought $ 22 billion in tax cuts for individuals and $ 17 billion for the business community.

The third is the revised KEDI assumption. It is anticipated that some compromise will be reached between the Carter and Bentsen plans. Here it is assumed that in 1981 there will be a tax cut of $ 20 billion for individuals and $ 15 billion for businesses. The impact of these three versions on the economy is incorporated in calculations that result in the following.

	Administration Proposal		Bentsen Plan		KEDI Assumption	
Year	1983	1985	1983	1985	1983	1985
Inflation rate, %	10.9	11.9	11.4	12.0	11.2	11.5
Productivity Increase (output per hour),%	2.9	2.1	2.8	2.1	2.6	2.0
Unemployment rate, %	6.6	7.0	6.1	6.3	6.3	6.4
Per capita disposable personal income in 1972 $, tho $	5.0	5.2	5.1	5.3	4.9	5.1

When comparing figures form the three tax cut packages, it is apparent the impact of the Bentsen plan is a bit larger than the others as it is related more to results in productivity and the standard of living. On the other hand, the inflation rate is highest here. Still, depending on your point of view, the inflation rate differences are either worth the benefits in the areas just mentioned or they are a bit too high. Again, calculations here using the various proposed combinations of tax reductions and breaks are attempts to assess the range of economic impact.

The weakest proposal, in the evaluation of this Institute, seems to be that of the Administration. It shows the lowest growth in productivity, the highest

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1421.1	1448.6	1668.4
Index of Industrial Production	1967 =100	152.5	145.3	151.0	171.0
Capacity Utilization	%	85.7	79.4	82.4	87.1
Unemployment Rate	%	5.9	7.3	7.3	6.4
Private Housing Starts	mil. units	1.721	1.233	1.403	1.908
Car Sales	mil. units	10.8	8.3	9.8	12.1
Implicit GNP Price Deflator	1972 =100	165.5	180.7	198.4	284.7
Consumer Price Index	1967 =100	217.5	247.4	274.0	415.2
Producer Price Index	1967 =100	236.2	270.6	308.4	439.5
Federal Deficit	bil. $	-11.2	-42.9	-44.0	-18.9
Personal Income	bil. $	1924.2	2115.9	2354.6	3627.7
Prime Rate	%	12.76	14.19	12.73	11.18
Mortgage Rate	%	10.60	12.95	12.04	10.89
Currency plus Demand Deposits	bil. $	363.8	378.5	413.4	519.7
Commercial and Industrial Loans	bil. $	290.5	308.8	335.1	409.1

unemployment rate, and expected inflation rates that are viewed here has not being significantly below the expected rates associated with the other two plans. KEDI's forecast based on the assumption of a $ 35 billion tax cut is highlighted on Table 1.0 on page 4.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the August, 1980, issue, the changes concern the Assumptions No. 1,2, and 8, and update of Assumption No. 3.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all but basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $ 34 range. In 1981, it is expected the price will go up to $ 42, in 1982, to $ 50 per barrel. in 1983, to $ 58 per barrel, in 1984, to $62 per barrel and in 1985, to $67 per barrel.

2. It is still too current to develop a longer-lasting assumption for the Iranian-Mid East crisis. Compared with the August 1980 forecast, higher price increases of energy items and substantially higher defense orders have been considered.

3. In the last months of this year, tightening of monetary policy is expected. Tight monetary policy is expected to continue throughout 1981, and some relaxation will take place not earlier than in 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton, and some other crops will be lower than those of the last year.

7. It is projected here that the rates of growth in 1980-82 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	2.8%	2.6%	3.0%
Italy	1.8	1.7	2.1
Japan	1.7	1.8	2.2
Great Britain	1.6	1.6	2.1
France	1.9	2.0	2.4

8. Last month the data for the forecast for 1981 and beyond were changed to include a tax cut of $ 35 billion higher than projected in the previous month. Now, we anticipate the tax cut of $ 35 billion ($20 billion for individuals, and $ 15 billion for corporations) to take effect at the beginning of 1981.

1.1 REAL GROWTH

(Table 1.10 on page 11)

Recently released data confirm the prediction made in July by KEDI that an upward trend had already started in the economy and that slow growth would follow.

Both business sales and inventories grew in July. Sales were up by 2.9 percent from the Junelevel. Inventories rose by 0.8 percent to an adjusted $450.67 billion. The ratio of inventories to sales declined in July for the first time in six months. Business stocks equaled about 1.5 month' of sales in July. There are strong indications, that that favorable ratio has been further improved in August and September.

Some forecasters expressed the view that the inventory rise was bearish news for the economy. To them, it meant that inventories still need to be reduced and production cut back. The perspective is not shared by KEDI.(One wonders how they would have reacted as a child to a gift of a pony.)

Another change to be noted concerns unfilled orders. They did move up a smidgen in July on a seasonally adjusted basis. Such orders increased to 282.03 billion from the June level of $ 281.04. Preliminary data show further increases in August and September.

Industrial production experienced a turn-around in August. It went up to 140.5 percent of the 1967 average from the adjusted level of 139.8 in July. The 0.5 percent gain followed a decline between June and July of 1.1 percent.

Retail sales climbed by 1.5 percent in August from the July level. That was the third month in a row of gains. Total retail sales in August were 6.3 percent above the level of the year-earlier figure. Durable goods sales were down this August by 1.5 percent from the level a year ago and nondurables sales were up by 10.4 percent. That increase was led by gasoline service stations mainly due to price gains. Decreases over the year were reported by building materials, mobile home and auto dealers.

Factory shipments went up in July. This reversed the downward trend that had started here in early spring.

The Conference Board reported that its index of consumer confidence went up in August. That provided three straight months of gains.

The employment was up by a bit in August. Even though it was less than 0.1 percent, it was a gain whereas many had expected some decline in the number of people employed. The average workweek went up to 35.1 hours from the 34.9

level in July. The manufacturing workweek gained for the first time since January: it went up by 0.5 hours to 39.6.

New orders for factory goods went up in August by 0.3 percent from the July level, seasonally adjusted. There was stronger demand for steel and electrical machinery. In July, factory orders had moved ahead by 6 percent. That was the biggest jump in one month in a decade. The August increase was led by non-durables orders which went up by 1.2 percent. That more than offset the slight drop in durable orders.

Recently released figures show that the August increase in exports gave the United States the best trading month it has had in over four years. The trade deficit narrowed to $ 1.06 billion last month. Exports were up in August by 5.7 percent from the July level. There were strong gains for wheat, soybeans, non-ferrous metals and gold. Not very long ago, the Commerce department was predicting that we would have the worst trade deficit ever by the end of this year. They have now revised that to $ 34 or $ 35 billion -- down from the 1979 level of $ 37 billion. It is likely, according to calculations at KEDI that the deficit will be in the $ 32 or $33 billion range. Leading economic indicators also rose in August. Early estimate show that these indicators went up to about 131 percent of the 1967 average from the revised July level of 128.6 percent.

There are still problems. The good news mentioned needs to be tempered with the realistic evaluation that most of the gains were slight. For instance, retail sales did go up a bit, but the gain in dollar sales does not account for the bite that inflation takes. Hence, the retailers' view of the sales as being sluggish needs to be kept in mind.

Auto sales are a continuing downer. Sales in August of domestic cars were 28 percent lower than the total for August, 1979. By mid-September, sales were off by 39 percent when compared to the year-ago period. At least, part of the decline in early September can be attributed to waiting for the introduction of the new models.

The weather has taken its toll of grains in the U.S. and Russia this year. Estimates for the size of the soybean crop and corn crop have been cut again by the Agriculture Department.

Construction spending has been going down since early this year. It did decline less sharply in July from the June level, but still the seasonally adjusted annual rate was only $214.3 billion in July whereas this rate was close to $ 250 billion before the decline began.

Overall, the data is confirming the forecast made here. Namely, that there would not be a recession (two quarters of decline in the Gross National Product in constant terms,) and that slow growth is the order of the day following the decline of the second quarter.

1.2 PRICES AND NOMINAL GNP

(Table 1.20 on page 14)

Considering the adverse effects of the weather on assorted crops and on livestock plus the increase in the assumption about the proposed tax package, the forecast here for development in prices has had to be revised upward.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1408.6	1411.7	1419.5	1421.1
Index of Industrial Production **	1967= 100	152.5	152.2	144.6	140.9	143.6	145.3
Unemployment Rate	%	5.9	6.1	7.5	7.6	7.8	7.3
Capacity Utilization Rate	%	85.7	85.1	77.0	76.6	78.7	79.4
Private Housing Starts	mil. units	1.721	1.330	1.048	1.263	1.290	1.233
Car Sales	mil. units	10.8	9.5	7.7	7.9	8.1	8.3
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1421.1	1427.8	1440.5	1455.7	1470.3	1448.6
Index of Industrial Production	1967= 100	145.3	147.7	149.8	151.5	155.1	151.0
Unemployment Rate	%	7.3	7.6	7.4	7.1	6.9	7.3
Capacity Utilization Rate	%	79.4	79.4	81.3	84.2	84.5	82.4
Private Housing Starts	mil. units	1.233	1.161	1.358	1.549	1.540	1.403
Car Sales	mil. units	8.3	8.6	9.6	10.2	10.6	9.8
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1448.6	1482.5	1500.4	1529.7	1529.8	1508.2
Index of Industrial Production	1967= 100	151.0	158.8	161.2	163.4	165.4	162.2
Unemployment Rate	%	7.3	6.8	6.4	6.2	6.2	6.4
Capacity Utilization Rate	%	82.4	85.6	86.0	86.3	86.5	86.1
Private Housing Starts	mil. units	1.403	1.426	1.634	1.685	1.720	1.617
Car Sales	mil. units	9.7	10.3	10.9	10.8	11.3	10.8

* Historical Data

** Historical Data: Revised by the Federal Reserve, September 1979.

However, when compared to the figures in earlier forecasts, the changes are not too large. The long-term outlook for prices according to KEDI is as follows:

	1980	1981	1982	1983	1984	1985
Consumer Price Index	247.3	274.0	308.2	340.6	375.4	418.5
% change from prior year	13.7	10.8	12.4	10.6	10.2	11.5

As can be seen from this table, the inflation rate is not expected to drop below 10 percent in the next five years.

Food prices will add extra points to the inflation rate, (accounted for in the calculations here). The rise in food prices begins with the bad weather which has led to large losses in the size of the estimated harvests for corn, soybeans, spring wheat, hay, oats, barley and sorghum. Prices for corn, a major livestock feed and oil source, have risen over 25 percent since June. (Such gains do not match the loss farmers have been experiencing.)

Prices for hogs are expected to go up at a faster rate than the Agriculture Department had forecast earlier. One of the factors is the higher cost for feed. Another factor is the time-worn cycle of production. As prices dropped a bit early this year, farmers began to lose money and cut supplies, and now that prices are starting back up, it is likely that supplies will gradually increase until that translate into lower gains, et cetera.

Consumer prices as measured by the Consumer Price Index slowed their rate of gain during July and August. Unfortunately, this is only a temporary aberration. Contributing to it was the short drop in mortgage rates early in the summer, Interest rates have been moving up again and mortgage rates will follow.

The Producer Price Index went up a seasonally adjusted 1.5 percent in August. That would yield an annual inflation rate of over 20 percent for such prices. In July that Index was up by 1.7 percent. Most of the gain in these two months was attributed to the increases in food prices which will continue to rise. KEDI agrees with Sylvia Porter's estimate that overall food prices will be up about eight or nine percent this year and over 10 percent next year.

1.3 EMPLOYMENT AND LABOR

(Table 1.30 on page 16)

In this issue, the forecast for the unemployment rate has been lowered for the third quarter. This is due largely to the widely unexpected drop in the unemployment rate in August to 7.6 from the 7.8 rate in July. The data for unemployment in the fourth quarter of this year and the following quarters have remained basically unchanged.

For the year 1981 and following years, the projection here remains optimistic. It is expected that the unemployment rate has already peaked. Gradual

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	251.0	257.0	247.4
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	274.0	285.8	270.6
Implicit GNP Price Deflator	1972=100	165.5	174.5	179.0	182.6	186.7	180.7
Gross National Product	bil. $	2369.5	2520.8	2521.3	2577.9	2650.5	2567.7
Personal Consumption Expenditures	bil. $	1510.0	1629.5	1626.6	1665.8	1698.7	1655.2
Gross Private Dom. Investment	bil. $	387.3	387.7	368.5	380.2	395.6	383.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.4	261.9	265.7	280.4	287.8	274.0
Producer Price Index, NSA	1967=100	270.6	294.3	305.7	312.8	320.6	308.4
Implicit GNP Price Deflator	1972=100	180.7	190.4	195.2	201.0	206.4	198.4
Gross National Product	bil. $	2567.7	2718.5	2811.9	2926.0	3048.6	2876.3
Personal Consumption Expenditures	bil. $	1655.2	1753.1	1820.4	1922.5	1970.9	1866.7
Gross Private Dom. Investment	bil. $	383.0	402.4	420.5	432.7	449.5	426.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.0	294.9	306.5	312.8	318.6	308.2
Producer Price Index, NSA	1967=100	308.4	331.4	339.2	347.6	354.3	343.1
Implicit GNP Price Deflator	1972=100	198.4	208.3	212.5	216.6	220.8	214.6
Gross National Product	bil. $	2876.3	3088.0	3188.4	3291.7	3378.7	3236.7
Personal Consumption Expenditures	bil. $	1866.7	2014.5	2070.5	2145.6	2192.8	2105.9
Gross Private Dom. Investment	bil. $	426.3	461.3	476.9	496.5	517.3	470.5

* Historical Data

decline will occur from now on (see Table 1.30 on page 16).

KEDI projections for the unemployment rate in 1980 have been constantly close to the actual developments. For instance, indications now point to a third quarter unemployment rate that will be close to 7.6 percent.

Data released this month on umemployment by states shows the impact of the automobile industry. For the fifth month in a row, Michigan had the highest unemployment of any state: 14.1 percent in July. Unemployment in both Indiana and Alabama was a bit above 11 percent. In Ohio and Illinois, the figures were near 10 percent.

By industry, unemployment in August and early data for September showed improvement in manufacturing where the rate dropped from above 10 percent to 9.3. However, in construction, the rate increased again to 18.3 from 16.1 percent.

1.4 HOUSING

(Table 1.40 on page 18)

The forecast for housing starts have been increased slightly. It is expected here that the present gains in mortgage rate will not continue for long. This is in opposition to the view of some forecasters that see the rate gains as a sign of more increases to come and the consumer being "choked" out of buying a house. KEDI expects that the impact of the present high mortgage rates on the number of housing starts will be insignificant.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	97.2	97.7	97.4
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.8	94.4	94.0
Unemployment Rate	%	5.80	6.13	7.46	7.65	7.83	7.27

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.4	98.5	99.0	100.1	101.0	99.7
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.0	95.2	95.7	96.7	97.7	96.4
Unemployment Rate	%	7.27	7.64	7.43	7.11	6.92	7.28

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.3	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.7	101.6	102.8	103.8	104.7	103.2
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.4	98.3	99.4	100.4	101.4	99.8
Unemployment Rate	%	7.28	6.85	6.44	6.24	6.18	6.43

* Historical Data

Moreover, the peak in such rates will be reached in the fourth quarter. After that, gradual declines will take place.

Still, 1981 is not viewed very favorably in terms of housing. KEDI does not anticipate any vigorous growth in housing starts before 1982.

Mobile home shipments will remain sluggish during both 1981 and 1982. Some recovery will begin to occur in 1983.

In August, housing starts rose by 12 percent to reach a seasonally adjusted annual rate of 1.39 million. That was the third month of gains. However such starts in August were still 21.8 percent lower than August of 1979.

Building permits went up by 7.8 percent in August. Again, that is three months of gains. Permits had gone up by 14.7 percent in July.

1.5 GOVERNMENT BUDGETS

(Table 1.50 on page 23)

The projection of budget indicators presented here is based on the assumption of a $35 billion tax cut in 1981. This was discussed in the Overview section and is Assumption No. 8.

The projection of the federal deficit presented here (see Table 1.50) shows the deficit remaining on a fairly high level in 1981 and somewhat exceeding the 1980 deficit. Starting in 1982, a decline in the deficit will begin and will reach the lowest level, roughly $ 17 billion, in 1984. In

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Single-Family Housing Starts	mil.	1.169	.801	.669	.789	.776	.759
Multifamily Housing Starts	mil.	.551	.529	.379	.474	.514	.474
Mobile Home Shipments	mil.	.283	.257	.180	.183	.194	.204
Housing Permits Issued	mil.	1.535	.965	.885	1.043	1.002	.974
Construction Costs-Commerc.	1972=100	180.2	193.5	197.0	198.9	201.3	197.7
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	198.5	203.4	197.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.759	.740	.802	.956	.948	.862
Multifamily Housing Starts	mil.	.474	.421	.556	.593	.592	.541
Mobile Homes Shipments	mil.	.204	.214	.256	.267	.279	.254
Housing Permits Issued	mil.	.974	.995	1.214	1.395	1.406	1.253
Construction Costs-Commerc.	1972=100	197.7	207.8	214.9	218.0	228.3	217.3
Construction Costs-Resident.	1972=100	197.6	209.0	213.8	218.7	229.0	217.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.862	.866	.991	1.046	1.063	.992
Multifamily Housing Starts	mil.	.541	.560	.643	.639	.657	.625
Mobile Homes Shipments	mil.	.254	.268	.304	.314	.303	.297
Housing Permits Issued	mil.	1.253	1.315	1.667	1.759	1.716	1.614
Construction Costs-Commerc.	1972=100	217.3	238.0	249.3	255.0	263.9	251.6
Construction Costs-Resident.	1972=100	217.6	239.4	251.0	256.8	266.3	253.4

* Historical Data

1985, it is expected, that the deficit will go up again. The estimate by KEDI for that year is approximately $ 18.9 billion. In other words, in the 1981-85 time period, the federal budget cannot move from the red ink to black. (Politicians better not promise to deliver a balanced budget if they value whatever degree of credibility they do have.)

As compared with our previous forecast, no substantial changes in the projection of the federal deficit was made for 1981 or the first one-half of 1982. It will take time for the effects of the tax package to be felt. Starting in the latter part of 1982 and through 1984, the deficits are lower than what had been expected here prior to this issue. That is because it is anticipated that the higher tax custs ($ 35 billion as compared with the previously assumed $ 30 billion) will start to show their impact more fully then because the tax cuts for businesses will result in gradual higher productivity, and this will lead to higher receipts in taxes.

Regarding the state and local budgets, there have been some changes in the forecast here. The estimates for surpluses have been slightly reduced from what they were in the previous forecast.

1.6 INCOME

(Table 1.60 on page 23)

The forecast data for personal income and personal disposable income have been slightly increased due to the change in Assumption No. 8 about the

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	242.9	243.1	250.7	244.2
Corporate Profit Tax Accruals	bil. $	78.5	86.8	65.6	70.1	75.9	74.6
Surplus./Deficit	bil. $	-11.2	-22.9	-49.2	-54.1	-45.4	-42.9
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	39.2	39.7	41.0	39.9
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.0	12.1	12.8	13.1
Surplus./Deficit	bil. $	24.7	24.6	19.5	19.6	20.1	21.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	244.2	265.4	283.6	298.7	312.2	290.0
Corporate Profit Tax Accruals	bil. $	74.6	80.4	96.7	100.4	104.9	95.6
Surplus./Deficit	bil. $	-42.9	-41.1	-46.5	-47.3	-41.2	-44.0
State and Local Governments:							
Income Taxes	bil. $	39.9	42.6	44.7	46.1	47.5	45.2
Corporate Profit Tax Accruals	bil. $	13.1	14.0	15.2	17.0	18.7	16.2
Surplus./Deficit	bil. $	21.0	21.0	23.1	24.8	26.3	23.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	290.0	323.4	334.6	343.8	350.2	338.0
Corporate Profit Tax Accruals	bil. $	95.6	110.2	117.4	122.8	126.2	119.2
Surplus./Deficit	bil. $	-44.0	-35.1	-29.6	-23.2	-19.8	-26.9
State and Local Governments:							
Income Taxes	bil. $	45.2	49.8	51.1	52.9	54.8	52.2
Corporate Profit Tax Accruals	bil. $	16.2	22.0	24.1	25.8	28.1	25.0
Surplus./Deficit	bil. $	23.8	27.3	28.9	30.4	31.8	29.6

* Historical Data

increased tax break and a slightly more optimistic projection of employment than had been seen in the previous issue. See Section 1.3 Employment and Labor.) It is not expected that there will be any significant improvements until at least 1983.

Although these numbers are more favorable than they had been in the last issue of this publication, the outlook remains quite cloudy -- especially when the real bite that inflation takes out of earnings is considered. There will be no real improvement in average income in the 1981-85 period.

Take as an example the average weekly earnings as reported here in Table 1.60. Deflated by the Consumer Price Index, it can be seen that the purchasing power of earnings will be constantly eroded by inflation. Average weekly earnings in 1967 dollars came to $ 100.8 in 1979. The projection here for the current year and the next five years in 1967 dollars, is as follows:

1980, $94.6;
1981, $93.1;
1982, $92.9;
1983, $93.9;
1984, $94.7;
1985, $97.3.

Such figures show how inflation hits.

Although the Consumer Price Index is not a fully ideal measure of the costs of living, it is obvious that the purchasing power will be at best, somewhat stabilized with little improvement in sight. (Seeing books in bookstores about how to buy wisely and stretch dollars points to the impact of the problem, but how many really like powdered milk, lots of peanut butter and coupon clipping.)

The projected data for corporate profits have been increased. Again, the main reason has to do with the change in the tax break assumption.

1.7 MONEY AND CREDIT

(Table 1.70 on page 25)

This month's forecast differs from the previous one in two areas:

1. The data for the money supply, M1A and M2 are higher here, due mainly to the anticipated rate of inflation begin somewhat higher than had been calculated in the August issue.

2. The projections for consumer installment credit, and commercial and industrial loans has somewhat been increased.

It has been anticipated by KEDI for many months that monetary policy would tighten in the last months of this year because the recovery from the summer slump will stimulate higher demand for money and will increase the inflationary pressure. That is now becoming a reality. Some economists foresee, NOW, (they did not do so earlier) that tighter Federal Reserve policy will be realized. For instance, in late September, the Wall Street Journal mentioned economists with securities firms expressing the view that it is now likely the Federal Reserve will act to tighten credit and slow money growth as a result. Another indicated that growth in the money supply that has

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: September 1980

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Personal Income	bil. $	1924.2	2057.4	2080.5	2138.4	2187.3	2115.9
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.9	1789.5	1832.9	1387.9
Compensation of Employees	bil. $	1459.5	1555.2	1564.2	1596.4	1651.4	1591.8
Corp. Profits After Tax	bil. $	144.6	158.0	127.1	130.9	137.3	138.3
Personal Saving	bil. $	73.2	64.4	86.3	90.2	97.2	84.5
Average Weekly Earnings	$	219.4	229.2	231.2	233.5	235.4	232.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2115.9	2224.3	2296.4	2412.5	2485.3	2354.6
Personal Dispos. Income	bil. $	1387.9	1879.9	1938.2	2038.7	1930.7	1989.9
Compensation of Employees	bil. $	1591.8	1708.1	1759.6	1862.1	1930.7	1815.1
Corp. Profits After Tax	bil. $	138.3	146.7	155.0	171.7	177.0	162.6
Personal Saving	bil. $	84.5	98.3	94.7	90.4	96.2	94.9
Average Weekly Earnings	$	232.3	238.9	242.6	245.8	249.8	244.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2354.6	2518.3	2603.6	2685.6	2741.5	2637.3
Personal Dispos. Income	bil. $	1989.9	2121.4	2192.4	2262.6	2316.9	2223.4
Compensation of Employees	bil. $	1815.1	1956.4	2034.7	2102.5	2178.7	2068.1
Corp. Profits After Tax	bil. $	162.6	181.3	185.3	190.7	191.5	187.2
Personal Saving	bil. $	94.9	96.3	98.7	100.2	101.4	99.2
Average Weekly Earnings	$	244.3	254.6	259.7	265.1	270.7	262.5

* Historical Data

taken place recently puts pressure of the Fed to restrain credit. (Such views are old news to KEDI.)

The position of KEDI remains unchanged: the Federal Reserve will tighten the credit and money supply BUT IN A MODERATE WAY. That is, there will be no dramatic squeezes. They have (at last) learned from the steps were taken on October 6, 1979 and March 14, 1980 and the economy weakening results. It is predicted ere that in 1981 the money supply will gain by 9.3 percent compared to 1980, and in 1982 the growth will be about 9.5 percent. That is fast, but not really an inflationary growth. The assumption is maintained that the Federal policy will remain restrictive through 1983. Some relaxation may take place in 1984.

1.8 INTEREST RATES, YIELDS AND SECURITY PRICES

(Table 1.80 on page 28)

The recent developments in interest rates confirm the predictions made here in the spring that interest rates would go up in the last months of this year. In late September the Federal Reserve increased its discount rate to 11 percent from 10 percent. That was the first gain since mid-February when it was hiked to a record 13 percent. That rate was last reduced in late July to 10 percent.

This Institute expects that the prime rate will peak at about 14 percent in the coming quarter (October-December). After that, it will drop slightly.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	368.9	380.2	390.1	378.5
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1565.8	1602.1	1619.7	1582.8
Consumer Instal. Credit	bil. $	311.1	307.6	301.4	302.8	307.1	307.1
Commerc. and Industr. Loans at Banks	bil. $	290.5	302.7	301.7	303.7	308.8	308.8
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	122.4	126.9	126.9
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	480.5	485.1	485.1
Indicator	Unit	1980	1981				1981
			1*	2 *	3	4	
Currency + Demand Deposits, M1A	bil. $	378.5	397.4	410.6	418.9	426.5	413.4
Time Deposits, Adjusted, M2	bil. $	1582.8	1680.7	1721.3	1746.8	1773.4	1730.5
Consumer Instal. Credit	bil. $	307.1	312.6	318.6	321.4	327.3	327.3
Commerc. and Industr. Loans at Banks	bil. $	308.8	314.8	320.1	328.6	335.4	335.1
Negotiable Cert. of Deposits	bil. $	126.9	130.7	133.4	139.2	146.7	146.7
Mortgages at S & L Assns.	bil. $	485.1	490.5	496.3	502.3	514.7	514.7
Indicator	Unit	1981	1982				1982
			1*	2 *	3	4	
Currency + Demand Deposits, M1A	bil. $	413.4	432.4	440.5	448.2	455.4	444.6
Time Deposits, Adjusted, M2	bil. $	1730.5	1802.5	1846.8	1893.2	1929.7	1868.1
Consumer Instal. Credit	bil. $	327.3	335.6	343.4	350.6	359.7	359.7
Commerc. and Industr. Loans at Banks	bil. $	335.1	340.2	346.8	354.5	359.4	359.4
Negotiable Cert. of Deposits	bil. $	146.7	151.2	156.7	159.4	164.3	164.3
Mortgages at S & L Assns.	bil. $	514.7	526.8	534.4	541.4	554.8	554.8

* Historical Data

Since 1979, KEDI has been forecasting within a framework of high U.S. interest rates. The long-term projection shows that the prime rate will be close to the 10 percent range no earlier than 1984. After that, it will go up again.

KEDI and a small minority of other forecasters maintained the position in August of this year that interest rates would not go down any more. The majority of forecasters were overly cheerful in predicting that the prime rate would be below 10 percent in September and October of this year.

As this Institute views the situation, there are two main reasons why interest rates cannot go down. First, when the recovery really starts from the downturn, the higher demand for funds necessarily puts pressure on interest rates. Secondly, over the long-term, there cannot be a wide and artificial gap between the low rates in this country and the high rates abroad. At the present time, the overseas' prime rates or their equivalents are around 16 percent. A U.S. prime rate in the 10-11 percent range could not stand for very long since that would lead to the deterioration of the international value of the dollar and to subsequent gains in the price level. That is, it would act as an added factor to inflation as the ripple effect spreads.

Over the long-term, it is the view here that other countries will not be willing to decrease their interest rates as they are deeply involved in the fight against inflation. Also, the economy here will be under inflationary pressure continuously. Hence, high interest rates will persist for many years. The sunny photo of cheap credit taken by many overly optimistic economists simply will not be developed.

The KEDI view of high rates as begin here to stay is only now beginning to be shared by most analysts. Whereas many of them were anticipating interest rate drops before this year ended and rates remaining on the low side, more of them are just now making public statements about high rates next year.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Consumer Price Index for the second quarter 1980 has been selected for comparison. Actual figures have been computed as the three-month average of April-June 1980 data published in the Survey of Current Business, Blue pages, July 1980. Forecast data is from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February, 1980, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

CONSUMER PRICE INDEX
(1967 = 100.)

Actual: 245.0

FORECASTER	Page in Business Business Forecasts 1980	Forecast	% of Accuracy
Manufacturers Hanover Trust	20	235.5	-3.8

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	19.76	11.28	11.34
Prime Rate	%	12.76	16.39	15.74	11.36	12.27	14.19
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.73	12.58	12.95
Aaa Bonds Rate	%	9.63	12.14	11.05	10.72	11.13	11.29
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.24	10.56	10.82
Standard & Poor's 500 Average	1941-43 =10	102.83	110.30	108.40	104.16	102.89	106.43

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.34	11.89	11.75	11.70	10.85	11.55
Prime Rate	%	14.19	13.06	12.63	11.92	11.85	12.37
Mortgage Rate, New Homes	%	12.95	12.64	12.10	11.83	11.57	12.04
Aaa Bonds Rate	%	11.29	11.03	10.96	10.73	10.78	10.89
Long Term Govt. Bonds Yield	%	10.82	10.74	10.96	10.63	10.41	10.69
Standard & Poor's 500 Average	1941-43 =10	106.43	102.06	103.24	105.14	106.28	104.18

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.55	10.72	11.16	11.87	11.96	11.43
Prime Rate	%	12.37	11.90	12.04	12.17	12.48	12.15
Mortgage Rate, New Homes	%	12.04	11.50	11.14	11.04	10.95	11.16
Aaa Bonds Rate	%	10.89	10.89	11.04	11.53	11.87	11.33
Long Term Govt. Bonds Yield	%	10.69	10.36	10.48	10.65	10.78	10.57
Standard & Poor's 500 Average	1941-43 =10	104.18	107.14	103.25	101.64	100.06	103.02

* Historical Data

Table 2.0 cont.)

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	238.5	-2.7
The First National Bank of Chicago	22	239.4	-2.3
Georgia State University	24	240.2	-2.0
Bankers Trust Company	28	240.3	-2.0
Goldman Sachs	29	241.4	-1.5
KEDI	31	240.3	-2.0
Morgan Guaranty Trust Company	35	241.5	-1.5